S. HRG. 100-302

ESSENTIAL AIR SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

S. 582

TO PROVIDE FOR IMPROVED AIR TRANSPORTATION TO SMALL COMMUNITIES, AND FOR OTHER PURPPOSES

S. 876

TO AMEND THE FEDERAL AVIATION ACT OF 1958, RELATING TO SMALL COMMUNITY AIR SERVICE

JULY 30, 1987

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ESSENTIAL AIR SERVICE

THURSDAY, JULY 30, 1987

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON AVIATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:33 a.m., in room SR-253, Russell Senate Office Building, Hon. Wendell H. Ford (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Steve Palmer and Harris Livingstain, professional staff members; and Patty Hahn, minority staff counsel.

OPENING STATEMENT BY SENATOR FORD

Senator FORD. We are going to begin with our opening statements, if the Senators want to come to the table and sit down. Senator Karnes has not arrived yet and he will be among the distinguished witnesses this morning.

I have a brief opening statement and will ask the other two Senators if they have a statement. I will have to leave for another aviation-related hearing this morning and will be back. Senator Exon has graciously agreed to chair the hearing.

So with that, we shall begin. This hearing is to consider legislation to extend the Essential Air Service program which was established in 1978 to provide for a ten-year transition period under airline deregulation, during which air services to small communities would be guaranteed.

Even though the EAS program has another 15 months before it expires, two bills to extend this program, S. 582 and S. 876, sponsored by Senator Exon and Senator Baucus, have been introduced thus far in the One Hundredth Congress. Both measures look to not only continue this vital link for the small communities, but also propose methods for expanding it to allow for improved services.

Today approximately 150 communities receive subsidized service under the EAS program. This program affords them the economic as well as social access that they otherwise would not have.

The continuation of this subsidy program, particularly given the uncertainties of deregulation, is therefore something we must do. The EAS program provides access for millions of people living in rural America to the nation's air transportation system. Its cost is small, but its value is enormous.

I am pleased that we have such a strong senatorial showing today. In addition to my colleagues on the subcommittee, Senator

Exon has been a leader in this area. I want to welcome both Senator Baucus and Senator Daschle. Your taking the time to come by here today, Senators, is proof of the importance of the EAS program, and I appreciate your interest.

We are pleased to have the ranking member and former chairman of this committee, Senator Kassebaum from Kansas. Senator, do you have any opening statement that you would like to give?

Senator KASSEBAUM. I do have some comments, thank you. But I will wait until we have heard from the witnesses. Thank you very much.

Senator FORD. You are mighty nice.

Senator Exon, do you just want to put your statement in the record and not give it?

OPENING STATEMENT BY SENATOR EXON

Senator EXON. Thank you very much, Mr. Chairman. Am I recognized?

Senator FORD. Temporarily.

Senator EXON. Mr. Chairman, first of all, I want to thank you for agreeing to hold this hearing this morning. This is a tremendously important hearing, not only for air service, which is extremely essential to the rural parts of our great country, but it is also very important from the total concept, as I see it, of meshing in the total transportation needs of all of our citizens.

I think that meeting the needs of the public has been a hallmark of the Commerce Committee and its jurisdiction over the various and tremendously important transportation and communications networks of the United States of America.

I also especially want to welcome today to this hearing—and he will be testifying this morning—Mayor Don Overman of Scott's Bluff, Nebraska. Mayor Overman is a good friend of mine who has been working very hard on this matter of Essential Air Service and related issues.

Mr. Chairman, we need to continue the Essential Air Service program, and I believe the vehicle that we are taking testimony on here today is the best way to do that.

A major reason always given in support of the airline deregulation is that it has resulted in lower fares for much of the flying public. However, as authors of the Airline Deregulation Act of 1978 fully recognized, deregulation could also result in the loss of basic air service to many communities just by the very thrust of the deregulation legislation.

The 1978 Act did not intend a situation where the right hand giveth in the form of lower fares, but the left hand taketh away in the form of losing air service. It would be no consolation to say that prices are lower once you drive several hours to get to your nearest airline connection.

The inclusion of the essential air service provision in the 1978 Deregulation Act strikes an important balance. Basic air service is the lifeblood of our medium-sized and smaller communities. Keep in mind that in many cases, these same communities have lost both their railroad passenger service and intercity bus service in the not-so-distant past. Loss of basic air service would be a crip-

pling blow to their chances for economic development at a time when many of these communities are already struggling due to the state of the agricultural economy.

My own State of Nebraska provides an excellent example to show what I'm talking about. Outside of the 2 largest cities of Omaha and Lincoln, every other city receiving scheduled air service (11 cities) is affected by the present essential air service program. According to the recent Department of Transportation report, without the essential air service program, the cities of Alliance, Hastings, Chadron, Columbus, Norfolk, Sidney, McCook, and probably Kearney, would lose all their air service (8 cities). Only Grand Island, North Platte, and Scottsbluff (3 cities) were projected to retain some service according to the report, but the loss of subsidized service these communities are now receiving would be devastating.

The present program has been important and needs to be continued, but as I stated earlier, it also needs to be improved. I have introduced S. 582 to continue and improve the EAS Program. There are a number of details to examine and I believe this committee should be open to suggestions for ways to make the program better. An important issue I hope this committee looks at is the definition of what is "essential."

In my opinion, the present law has been interpreted by both the former CAB and now DOT to provide only the barest minimum level of air service. This has resulted in a drop in traffic at EAS cities while other airline traffic is growing tremendously. I personally believe that in many of the communities now receiving EAS subsidies, the amount of the subsidies would be much less or none at all if air service in recent years had been of a higher quality and greater reliability, so as to attract and hold regular passengers. I know in Nebraska, the quality and reliability of service has been a major problem that has caused a loss of passenger traffic. Improving the quality of service will improve the traffic volume and help make more of these EAS points self-sufficient.

Finally, I do want to comment that I hope the Reagan adminstration will cooperate with our efforts to examine the current law and make constructive changes in it. The President has opposed extension of the essential air service law and even wants to terminate it a year earlier by ending it this year. No funds for the EAS program were included in the President's fiscal year 1988 proposed budget and a bill was sent over to advance the sunset date to this year.

If the administration feels the EAS program has "Pork" in it somewhere that should be trimmed, I will be more than happy to look at changes in the law to eliminate it. But if the President's position is simply going to be "this is a government program that is contrary to my principles of deregulation," that will be a major disappointment to many of us on both sides of the aisle in both Houses. I sincerely hope that will not turn out to be the case.

I am looking forward to the testimony today and to working with everyone concerned on these issues.

Senator FORD. Thank you, Senator Exon.

Senator Pressler.

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. Mr. Chairman, let me say first that many years ago I voted against airline deregulation, and I did so because I foresaw the time when rural and small cities would be left out.

We had all kinds of promises about the benefits of deregulation of the airlines. But what is happening in the big cities and small cities and what is coming to pass validates that vote. That is one of the proudest votes in my voting history. The fact is that what we said was going to happen regarding deregulation of the airlines is coming to pass.

In the big cities we have flights that are delayed. We have monopolists taking over. And in the small cities, we have abandonments and captive travelers paying very high rates.

Now, it is true that in some of the States, such as mine of South Dakota, you can get a Supersaver if you plan well in advance. But if you have to go to somebody's funeral or if you are a business person traveling, you have to pay very high rates.

You are subsidizing the New York to Los Angeles routes. That was not what was intended.

But more critically, what is happening is that our smaller towns are losing air service. Some might say, well, people can drive a few more miles. But there are significant spinoff effects.

For example, several South Dakota cities are trying to attract new businesses. If Yankton, South Dakota, loses air service, new businesses will not move there. Our state is trying to attract the Super Collider. If we do not have good air service, scientists will have a hard time getting there.

We will later this morning hear from Mrs. Eidsness from Brookings, the home of our State university. The point is that we need air service in order to attract professors and ensure a good quality of life.

Our State capital, Pierre, SD, does not have adequate air service in my judgment. So it goes on and on. Good air transportation is key to economic development.

I am happy to be a cosponsor of S. 582 and I have been working with Senator Exon and Senator Kassebaum and others on this critical matter. But even if we continue, if a community which currently has air service may lose it in 15 months, we are in a situation that is not favorable for a business considering locating there.

Mr. Chairman, I have not even mentioned medical services and the need to have air ambulances, the ability to move medical supplies, and to move people who are in critical conditions to a hospital or to a place of specialty. My State of South Dakota has been hit very hard, probably the hardest of any State in the union, as a result of deregulation of the airlines.

We have a special governors task force on Essential Air Service. This group of twelve members has been working on the issue, and I am proud to say that Mrs. Pat Eidsness from Brookings will be a witness here this morning, and we welcome her and thank the chairman for allowing her to testify on the critical importance of air transportation to the State's economic development. We are trying to attract research institutions and we are trying to have de-

velopment in EPSCOR projects and to bring new business into the State, but they will not come unless we have air transportation.

So Mr. Chairman, thank you for holding this timely hearing. I shall place my detailed statement on the legislation in the record.

A great deal of information on the need for the Essential Air Service Program will be brought out during this hearing today, and I hope that we in Congress will take note of the importance of stable air service to our nation's smaller communities.

It is not just South Dakota. It is also upstate New York, it is also the smaller cities in California. If indeed we are to have a national policy of having people live away from urban centers, the Essential Air Service Program is critically needed.

Air transportation is often the smaller community's link to the outside world. We must work to ensure that adequate air service continues throughout the entire nation. Ours is a national transportation service.

I would conclude by saying that when deregulation legislation was passed we had a concept for a national transportation service, which is related to national defense and to economic development on a national basis. We have abandoned that.

We need reregulation in certain areas to be sure that there is service, to be sure that rates are fair, and to be sure that people living in small cities who are captive shippers are not subsidizing the low Supersavers between some of our big cities.

Mr. Chairman, the most fundamental question surrounding the EAS issue is whether we are going to have a truly national air transportation system or whether we are going to allow it to focus exclusively on urban population centers. If we do not continue EAS, we are making a conscious decision to abandon main street America. The record is very clear on that point. No one needs to speculate. The indisputable fact is that our smaller cities will lose air service, leaving large areas of the country without realistic access to adequate air transportation. The latter option does not sound very attractive to me, and will lead to further economic demise for areas already struggling to stay afloat. As an original cosponsor of S. 582, the Small Community Air Service Improvement Act, I believe we must make a strong commitment to the retention of adequate air service in smaller communities. Currently, 48 States benefit from the EAS program. If their communities lose air service, each of these States will greatly suffer.

Air transportation is a vital element in every State's economic development program and is necessary to industrial expansion. I want to stress the importance of air service as a crucial determining factor when a business is considering locating in a new area. For instance, when a business considers moving to a new community, one of the key determining factors is the quality of air service available. If that community which currently has air service may lose it in 15 months, when the EAS program ends, it is obvious transportation sensitive businesses will not locate there.

It is often the trend that when a new business locates in a community, another will closely follow. This is what economic development is all about. Unfortunately, without adequate air transportation, it is very difficult to convince businesses to locate in smaller communities.

Because air transportation is so crucial to smaller communities and rural areas, many groups have been working to develop solutions to keeping air service available beyond 1988. In my home State of South Dakota, we have a special Governor's Task Force on Essential Air Service. This group of 12 members has been working on this issue during the past months. I am very proud to say that Mrs. Pat Eidsness from Brookings, SD, is here today, and let me express publicly my appreciation to the chairman for allowing her the opportunity to testify. She will be testifying on the importance of air transportation to our State's economic development.

Again, Mr. Chairman, thank you for holding this timely hearing. A great deal of information on the need for the essential air service program will be brought out during this hearing, and I hope that we in Congress will take notice of the importance of stable air service to our Nation's smaller communities. Air transportation is often the smaller communities link to the outside world. We must work to ensure adequate air service continues throughout the entire Nation. Ours is a national transportation system and we should not allow it to bypass small town America.

Senator EXON [presiding]. Thank you.

Senator Stevens.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. Mr. Chairman, I will not keep our colleagues waiting. However, I do want to point out that our Essential Air Service program was initiated at my request in order to deal with Alaska's problems. It has proven its worth in Alaska.

Now, at a time when our economy is almost devastated because of the change in the oil industry, we would have many communities completely isolated if this program were now abandoned.

I look forward to the comments of other members of the Senate, and I want to work with you and the chairman of the committee and Senator Kassebaum on anything we can devise to maintain this service, because without it deregulation will have proven to be just a complete failure for the people in the smaller communities of our country.

I think no place exemplifies the problems of those communities as much as Alaska, with some 300 communities that would really be isolated if the program were abandoned. Now, they are not all served today, but it is the program itself that keeps the service there, and I think that is important to keep in mind.

Alaskans are prime beneficiaries of the current Essential Air Service [EAS] program. It fills a need for basic, essential transportation in the rural areas of my state that wouldn't be met otherwise.

EAS was initiated with places like Alaska in mind—for air service in Alaska is indeed essential. Traveling the vast distances between remote communities by car or bus is completely impractial. In fact, many communities in Alaska have no roads at all and are fully dependent upon air transportation for access to the rest of the State. For their weekly shipment of food and medical supplies, for their occasional trip to the dentist, and for their link with the out-

side world through the mail, rural Alaskan towns rely on air transportation.

Furthermore, many small Alaskan businesses and resource exporters are entirely dependent on air service. Millions of pounds of fresh seafood would not get to market without reliable service into and out of isolated communities.

Air service in Alaska could not be as comprehensive, as safe, or as dependable without the EAS program. Virtually every EAS point in Alaska is a community which is inaccessible by roads. Consequently, EAS is their lifeline to the rest of Alaska—and the outside world. If funding for EAS lapsed, air service throughout rural Alaska would be less frequent and often times prohibitivly expensive. In some of the more isolated towns, air service would simply disappear—relegated to onerously expensive charters for medical emergencies and basic access. Alaska has worked hard to make the free market shoulder the burden of air service to remote communities. Still, the free market simply cannot insure basic essential levels of transportation to many isolated communities in Alaska without the help of the EAS program.

Proposals to replace the EAS funding with state or local matching funds do not recognize the present contribution which the state government and local communities in Alaska now make. The State of Alaska already operates and maintains almost 300 airports, and subsidizes marine and ground transportation. With the Alaskan economy still recovering from the revenue loss associated with decline in oil-related activity in Alaska, the funds to commit to EAS simply aren't available.

In short, the Essential Air Service Program must be continued as primarily a Federal program. The costs for the program have come down over the last 9 years, and should continue to fall as the EAS points grow and develop an economic base that will support a minimal level of air service.

I look forward to working with my good friend from Kentucky, Senator Ford, Senator Kassebaum and Senator Exon on this bill.

Senator EXON. Senator Stevens, that was very well said. Of all of our states, if you look at the sparsely settled areas, given the geography, Alaska stands out as a particular problem.

Therefore, recognizing that special situation with regard to our valuable State of Alaska and all that it contributes to the defense of the United States of America as well as the many other resources it provides, we have made Alaska a special case. Alaska fares even better than any of the other States because we recognize the special problem that you have there.

Senator Kasten.

OPENING STATEMENT BY SENATOR KASTEN

Senator KASTEN. Mr. Chairman, thank you very much.

I want to join in commending you for holding these hearings on legislative proposals to extend the Essential Air Service Program well in advance of the expiration date of October 24, 1988. The current program will have been in effect for a period of 10 years following the deregulation of the airlines.

Some 133 smaller communities that would have lost air service were able to have that service maintained through Federal subsidies that amounted to $24 million in 1986. The program was to provide a bridging function from the former regulated environment to the deregulated one that we have today.

Given the importance of the air transportation link to the communities involved and the policy questions raised, I am pleased that we as the committee are working with and addressing the extension of and the revisions to the Essential Air Service Program at this time.

It is appropriate that we receive the views of the witnesses appearing here today as we look to this program's future. What is proposed under both Senator Exon's bill and Senator Baucus' bill amounts to a provision of this service from a 10-year bridging function to now a 20-year program. I am concerned in these times of budgetary constraints by the CBO's estimate of $40–$50 million in annual cost for S. 582 (Senator Exon's bill). I am interested in the proposal to eliminate airports within an hour's drive of a hub as being a reasonable revision to the program.

We have to explore revisions that provide necessary service while eliminating service just based on an original grandfathered determination. I know that in Wisconsin the subsidies from 3 airports range from $200 to $130 per passenger with 1 person to 1.5 person served per day on an average. I believe that the system must be closely scrutinized so that we do provide essential service, but do not continue to expend funds to maintain or change the service where it is not called for.

I look forward to listening, first of all, to my colleagues, and then to the people who are testifying here today.

And I thank you, Mr. Chairman.

Senator EXON. Next we recognize the Senator from West Virginia—the ranking member has to leave in about four minutes and withheld her statement, and she would like to make one now. So in deference to her time schedule, I recognize the Senator from Kansas.

OPENING STATEMENT BY SENATOR KASSEBAUM

Senator KASSEBAUM. Thank you very much.

I had hoped to hear the lead-off witnesses before I left, but I am scheduled to testify now before the Agriculture Committee and I would like to make a few comments before I leave.

Certainly, I think that Nebraska relies heavily on Essential Air Service, and that Alaska has a unique situation, but we must keep in mind that Essential Air Service was authorized as a transition program, not a permanent subsidy.

I think as we consider now, having gone through the ten year transition period, how we should address essential air service, I think we must not confuse what is indeed essential service and what might be merely convenient service.

I hope that as we assess the comments in this hearing and other hearings—and I truly believe they are very valuable—it is important that we keep that in mind the purpose for which Essential Air Service was enacted.

I have consistently said that I will oppose the reauthorization of Essential Air Service. However, I have modified my original position to a certain extent, believing that in fact there are those instances that indeed it is essential to some communities.

I believe the service in Alaska is an example. I think our rural communities are an example. But I think that, while we try to assess the essential aspect of communities receiving service, we should only look to those communities that are currently receiving service.

And I think, Mr. Chairman, that we should consider requiring matching payments. If indeed it is essential to a community to have that service, then I would guess that a community would wish to share in that participation.

When the airline industry was deregulated in 1978, the Deregulation Act permitted airlines to terminate air service without government approval as a part of route deregulation.

Because of Congressional concern that some communities would lose all air service, section 419 of the Act guaranteed that all communities receiving service at that time would continue to receive service. In cases where it would not be profitable for an airline to provide such service, Congress authorized a temporary, direct subsidy.

EAS was enacted to bridge a ten-year transition period from regulated to deregulated air service.

There are currently 133 communities that are receiving a federal subsidy for the air service they receive. Providing that service cost the federal government $24 million last year.

In those cases where air service is truly essential there may be good cause to continue subsidized service. However, there are no easy, clear-cut criteria for determining what service is "essential", as opposed to service that is simply "convenient".

That determination—"essential service" vs. "convenient service"—should be a primary concern of this committee, if we intend to reauthorize the program—in any form.

At the time EAS was first authorized I said I would support a 10 year transition program, but no further reauthorization. That position was consistent with the intent of the deregulation act, but more to the point, it was based on a concern over creating new federal entitlement programs.

I have modified my original position based on the belief that air service is, in fact, "essential" to some communities. Communities being served in Alaska are a prime example of what I consider "essential air service."

I believe any reauthorized EAS program should be limited to those communities currently receiving service, and should require a matching payment.

Any federal program that is provided at no cost is bound to be a very popular program. Federal programs that require a co-payment, however, necessitate a basis decision on the part of the recipient.

If EAS is truly "essential" to a community, that community should be willing to assist the federal government in covering the cost of providing service. If it is not "essential", cost-sharing is the best way I know of making that fact known.

For those reasons, I will support a limited reauthorization of EAS when the time comes, but I will do so only with a requirement that any community electing to continue service will also be required to contribute to covering the cost of such service.

I also would like to say that I am pleased that the city manager of Liberal, KS, a community that has received Essential Air Service, is testifying this morning as one of the witnesses.

Thank you, Mr. Chairman.

Senator EXON. I thank you very much, Senator Kassebaum, for your statement. Without objection, we will accept your statement for the record.

Senator Kassebaum has made a good point. The basic thrust of the legislation is the word "essential." In fact, one of the accolades that have been given this program by the Administration, that have not been particularly forthcoming in their accolades, is the fact that we are eliminating any airport within 55 miles of a hub airport.

And I do think that we want to make it clear that this is not intended as a long term subsidy program. But I think it is quite obvious to all of us that the original time frame has not provided us with a sufficient transition period. The full effects of deregulation were not fully anticipated when we passed the bill. It has all but devastated many areas of the country that have no direct access to hub airports.

Thank you. Your comments were well taken.

Senator Rockefeller.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The comments of the Senator from Alaska and the Senator from Kansas apply very well to West Virginia.

I apologize to the three distinguished Senators before, but there is a comment that I want to make. It would have been very nice when deregulation passed if we could have come now, almost 10 years later, to the point where we did not need Essential Air Service, and in fact I suppose at the time that was the hope.

But for many of us from rural States, air deregulation has turned out to be precisely the opposite. In fact, on a seats per week basis in my State of West Virginia, seats have declined by almost one-third since airline deregulation.

It may very well be that air deregulation has been a terrific thing for the people of New York, the people of Houston and Atlanta. But I can tell you, for the people of Beckley and Bluefield and Morgantown, WV, and others of our small communities, it has been an unmitigated disaster.

I want to make that very clear. Without essential air service, there would be no air service in those communities. It is simply as simple as that.

For my State, air deregulation has meant fewer flights. It has meant poorer service, and frankly it has meant poorer quality. One of our cities which is a very powerful city, Parkersburg, WV, no longer even has jet service. It has propeller service. That is not exactly what we had in mind when air deregulation was passed. It

was meant to give some kind of equitable distribution to all the States in this country.

Mr. Chairman, those of us from rural States know that, as bad as air deregulation has been, it would have completely eliminated our possibilities without Essential Air Service. And that is why I feel so strongly, the people of West Virginia feel so strongly, that this modest link has to be continued.

We cannot survive without Essential Air Service. We will have all but two of our communities in the State without any airline service whatsoever without Essential Air Service, and that is the fact of it.

Now, I am very glad that the director of the Raleigh County Memorial Airport, Gerry Fink from West Virginia, is going to be one of the witnesses today, and I hope the committee will listen closely to him as he describes what in a southern coal county Essential Air Service means for the survival and the possibilities of that county as we even have any hope of trying to diversify an economy already totally dependent upon coal, but in an area which wants to diversify.

What is the first question that is asked when people come? Where is the airport? What is the education system like? Where is the airport, what is it like? What is the service?

I think it is an essential service, an air service, Mr. Chairman. And I look forward to the endorsement of this committee in putting it through Congress.

And I thank the chairman.

Senator EXON. I thank you very much.

I have statements from Senators Hollings and Danforth that will be included in the record.

[The statements and bills follow:]

OPENING STATEMENT BY THE CHAIRMAN

Mr. Chairman, nearly a decade ago when the Airline Deregulation Act of 1978 was enacted, we knew that the airlines would abandon smaller communities and move to the larger, more lucrative markets. We also knew that smaller communities, which are crucially dependent on airline service, could not offer the economic incentive needed to retain this necessary and vital service.

As a result, we created the Essential Air Service Program to ease the transition to a deregulated environment and to provide isolated and remote communities with basic air transportation. Thus far, the program has been a success. In the 9 years since its creation, approximately 400 communities have become self-sufficient and no longer require subsidized air service.

However, we still have approximately 150 communities which continue to rely on this program in order to link themselves socially and economically to the rest of the country. In spite of the clear need for such service, and in total disregard for one of the basic doctrines of Federal transportation policy, DOT today comes before us to request that this program be terminated.

This program is relatively inexpensive considering the great benefits it provides our rural communities. It would be inconsistent with our policy of public convenience and necessity to discontinue this service. Letting this program end would socially isolate these communities and rob them of the benefits and the ability to participate in the economic growth of this country.

These communities are in a unique and difficult situation. We must not ignore them. I congratulate the efforts of Senators Exon and Baucus in proposing legislation which recognizes the special plight of these communities. Although the current subsidy program does not expire until next year, I believe our presence here today is an indication of the importance of the Essential Air Service program and I support the efforts of my colleagues.

OPENING STATEMENT BY SENATOR DANFORTH

I would like to thank Senator Ford for holding this morning's hearing on this important issue. Although the Essential Air Service Program is now scheduled to last until October of 1988, it is worthwhile to examine the program now and consider whether it should be reauthorized. Clearly, many travelers in smaller communities benefit on a daily basis from the Essential Air Service Program. The Transportation Department estimates that about 290,000 passengers a year from 95 communities in the continental United States receive air transportation subsidized through this program. If Essential Air Service were terminated, the Transportation Department estimates that at least 68 communities would lose air service altogether. This result could have a dramatic impact on the economic welfare of these communities.

Mr. Chairman, the Transportation Department has made Essential Air Service determinations for six Missouri airports, and one of these, Kirksville, MO, has been receiving subsidized service under the program. Kirksville is extremely supportive of continuation of essential air service. I am pleased to be able to attend this morning and to learn more from the witnesses this morning about Essential Air Service, and to listen to the witnesses' suggestions about whether this program, if reauthorized, should be modified.

100TH CONGRESS
1ST SESSION

S. 582

To provide for improved air transportation to small communities, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 26, 1987

Mr. EXON (for himself, Mr. ZORINSKY, Mr. ROCKEFELLER, Mr. DASCHLE, Mr. PRESSLER, and Mr. BYRD) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To provide for improved air transportation to small communities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Small Community Air Service Improvement Act of 1987".

SEC. 2. As used in this Act, the term—

(1) "air carrier" has the meaning given to such term in section 101(3) of the Federal Aviation Act of 1958 (49 App. U.S.C. 1301(3));

(2) "basic air service" means—

(A) two daily round trip flights occurring on six days per week, with not more than one intermediate stop between the eligible point and a hub city, which flights are scheduled to coincide approximately with the beginning and end of the business day, except that flights departing from the eligible point or hub city between 10 o'clock ante meridiem and 4 o'clock post meridiem or between 7 o'clock post meridiem and 7 o'clock ante meridiem shall not be considered to be so scheduled in the absence of a written agreement of the principal elected official of each community served by such point;

(B) connecting or single plane service at the hub city to and from a substantial number of major destinations beyond such hub city;

(C) service provided in aircraft large enough to accommodate estimated passenger and nonpassenger traffic at an average load factor for each such class of traffic of not greater than 50 per centum, except as provided in section 7 of this Act;

(D) service provided in aircraft with at least two pilots and two engines, unless, after October 31, 1978, no such aircraft have been employed in

scheduled airline service for more than sixty consecutive operating days at such point;

(E) service provided with pressurized aircraft for operations which regularly exceed an altitude of eight thousand feet; and

(F) service at fares which are not excessive when compared to the generally prevailing fares of other air carriers for like service between similar pairs of points;

(3) "eligible point" means any aircraft in the United States which cannot be reached by automobile within one hour from a hub city and for which a determination of essential air transportation has been made under section 419 of the Federal Aviation Act of 1958 (49 App. U.S.C. 1389);

(4) "enhanced air service" means service whose quality exceeds basic air service and whose cost of contracts to provide such enhanced service would be in excess of the cost of basic air service;

(5) "hub city" means—

(A) an airline point which is within reasonable proximity to an eligible point and from which direct flights to a significant number of major domestic airline destinations may be obtained; and

(B) with respect to each eligible point, that city which was identified on or before January 1, 1986, as an airline hub for such point in connection with the provision of essential air service pursuant to section 419 of the Federal Aviation Act of 1958 (49 App. U.S.C. 1389), or which is designated by the Secretary with the concurrence of the principal elected officials of each community served by such point;

(6) "new eligible point" means any airport which is not an eligible point that has been designated by a State or local government as a point to receive scheduled passenger air service under this Act, if such State or local government has guaranteed to pay 50 per centum of the costs of contracts to provide the air service specified by such State or local government; and

(7) "Secretary" means the Secretary of Transportation.

SEC. 3. The Secretary shall enter into contracts with air carriers to the extent necessary to—

(1) assure that each eligible point receives uninterrupted basic air service;

(2) assure that each new eligible point receives air service of such type and quality as may be specified by

a State or local government which has agreed to pay 50 per centum of the cost of contracts to provide such service; and

(3) provide for enhanced air service at each eligible point whenever a State or local government or any other person has agreed to pay 50 per centum of the cost of contracts to provide such enhanced air service.

SEC. 4. In selecting an air carrier to provide air service under contracts entered into under this Act, the Secretary shall give particular weight to such carrier's demonstrated reliability in providing scheduled air service and to such carrier's contractual arrangements with other air carriers to assure service beyond the hub city in accordance with section 2(2)(B) of this Act. The Secretary shall contract directly with air carriers providing air service from the hub city to points beyond the hub city where the Secretary determines that such a contract is necessary to assure such service. The Secretary shall also encourage the submission of joint contract proposals by two or more air carriers which reflect arrangements to maximize service for eligible points to and from major cities beyond the hub city of such carriers.

SEC. 5. Contracts for basic air service made under this Act shall, to the extent otherwise consistent with this Act, reflect the preferences of the actual and potential users of airline service at the eligible point. In determining such pref-

erences, the Secretary shall give substantial weight to the views of elected officials representing such users. Any contract providing for enhanced air service shall include such provisions for enhancements as are prescribed by the governmental entity or other person which has agreed to pay the non-Federal share of such contract and are otherwise lawful. The Secretary may require appropriate payment in advance or such other security to assure that the non-Federal share of contracts for air service under this Act are made in a timely manner.

SEC. 6. Contracts made under this Act shall be of such duration as the Secretary finds, after consultation with elected representatives of the affected cities, will tend to encourage reliable air service and public patronage of such air service. All such contracts shall provide that the Secretary may require the contracting airline to continue to provide the specified air service beyond the termination date of its contract if, despite diligent efforts by the Secretary, a contract with a replacement air carrier has not been arranged. If the Secretary requires such extended service, the airline providing such service shall be compensated for service beyond the contract termination date in an amount which is sufficient to cover its fully allocated actual costs plus return on used and useful investment (at market value) attributable to the service and the reasonably demonstrable cost of opportunities fore-

gone as a result of being obliged to provide such extended service.

SEC. 7. No contract made under this Act shall provide for service to be provided by aircraft with less than an effective capacity of fifteen passengers unless, after October 31, 1978, aircraft of such size have not been employed in scheduled airline service for more than sixty consecutive operating days at the relevant point.

SEC. 8. Notwithstanding any other provision of law, the Secretary shall enter into contracts under this Act by competitive negotiations under procedures established by the Secretary. The provisions of the Contract Disputes Act of 1978 (41 U.S.C. 601 et seq.) shall be applicable to all contracts entered into under this Act.

SEC. 9. Contracts required to be made by this Act shall be entered into at the earliest practicable date, but in no event later than twenty-four months after the date of enactment of this Act. On the effective date of such a contract, the eligible point covered by such contract shall cease to be an eligible point within the meaning of section 419 of the Federal Aviation Act of 1958 (49 App. U.S.C. 1389), and no compensation pursuant to such section shall be earned after such effective date for air service to such point.

SEC. 10. The Secretary may incur obligations for the purpose of carrying out the provisions of this Act from appropriations made for such purpose.

SEC. 11. In negotiating contracts under this Act or otherwise fixing the terms of such contracts, the Secretary shall invite the participation and comments of affected State and local governments to the maximum extent practicable. Contracts entered into under this Act shall be made by and in the name of the Secretary.

SEC. 12. (a) Section 419(b)(2) of the Federal Aviation Act of 1958 (49 App. U.S.C. 1389(b)(2)) is repealed.

(b) Section 419(g) of the Federal Aviation Act of 1958 (49 App. U.S.C. 1389(g)) is amended by striking "ten-year" and inserting in lieu thereof "twelve-year".

SEC. 13. This Act shall cease to be in effect on the date which is ten years after the date of enactment of this Act.

100TH CONGRESS
1ST SESSION

S. 876

To amend the Federal Aviation Act of 1958, relating to small community air service.

IN THE SENATE OF THE UNITED STATES

MARCH 27 (legislative day, MARCH 24), 1987

Mr. BAUCUS introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To amend the Federal Aviation Act of 1958, relating to small community air service.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Aviation Act of 1958 is amended by inserting immediately after section 419 the following new section:

"SEC. 419A. (a) In the administration of section 419 of this Act, the Secretary of Transportation, in addition to the authority contained in section 419 of this Act, is authorized to enter into a contract or contracts with any air carriers for the purpose of providing service to an eligible point as determined and designated in accordance with section 419.

"(b) Such contract shall be negotiated for the purpose, among others, of assuring that any air carrier covered by such contract will provide at least essential air transportation (as determined in accordance with section 419) to any such eligible point.

"(c) Each such contract shall require, as a minimum—

"(1) two trips six days per week to an existing hub, or such number of trips designated as essential air transportation pursuant to section 419, whichever is the greater number, timed so as to assure convenient connections to destinations beyond the hub;

"(2) the use of aircraft of sufficient size to accommodate estimated traffic at an average 50 percent load, but in no event could service be provided on aircraft with fewer than 15 passenger seats without the consent of the appropriate State agency or agencies and the community affected;

"(3) maximum practicable number of convenient connections to beyond-hub destinations, and for agreements with beyond-hub, as well as local, air carriers as necessary to ensure good beyond-hub service;

"(4) reasonable fares based on the prevailing fares of other air carriers; and

"(5) such other conditions or requirements as the Secretary may impose to assure effective service and continuity in service to any such eligible point.

"(d) Any contract entered into pursuant to this section shall be exempt from the requirement of the Federal Procurement Act.

"(e) The Secretary shall, from time to time, review each such contract entered into pursuant to this section and negotiate such changes or modifications therein as may be necessary to reflect changes in air traffic and other matters which impede effective service to any such eligible point.

"(f) In any case in which an interested community or a State agency in the State in which such community is located desires, with respect to any eligible point therein, service features in addition to those contained in a basic contract under subsection (c) of this section, the Secretary shall include in any such contract provisions sufficient to meet such service features so desired, if such community or State, as the case may be, agrees to pay 50 percent of the costs involved in providing such additional features.

"(g)(1) The Secretary, at the request of any community or State, is authorized to negotiate contracts, in accordance with this section, providing for experimental start-up air service, for a 48 calendar month period, to a point or points within such community or State. Any such contract shall be

negotiated in the same manner and to the same extent as if any such point was an eligible point as defined in section 419 of this Act.

"(2) If any such point, at any time prior to the date of the enactment of this section, did not receive scheduled air service, such local community or State shall be required to pay, under such contract, 20 percent of the basic contract cost for air service in accordance with subsection (c) of this section. If any such point, at any time prior to the date of the enactment of this section, was eligible for a subsidy under section 419, no part of any such basic contract costs shall be charged to any such community or State.

"(h) In any case in which a community or a State desires additional service features in a contract, as provided under subsection (f) of this section, the Secretary, in negotiating such contract, shall consult with such community or State for its views and recommendations, including any modifications or other revisions or renewals of such contract.

"(i) There is authorized to be appropriated, for fiscal year 1988, and each of the next following nine fiscal years, $30,000,000 for carrying out the provisions of this section.

"(j) The provisions of this section shall terminate upon the expiration of the 10-year period following the date of the enactment of this section.".

SEC. 2. Subsection (g) of section 419 of the Federal Aviation Act (49 U.S.C. 1389(g)) is amended by deleting "ten" and inserting in lieu thereof "twenty".

Senator EXON. Now we are pleased to go to our panel, and we will start out with the Senator from Montana, Senator Baucus, who has played a very key role in the Essential Air Service. Montana is another one of those typical states that have all but been left out of the air traffic picture since deregulation, and we certainly appreciate the significant role Senator Baucus has had in forming this legislation.

Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, I would like to have my statement included in the record if I could, and I will just make a few comments.

Senator EXON. Without objection.

Senator BAUCUS. Mr. Chairman, I do not often come before this committee because I know how busy this committee is and you have important work to do.

I am here because I think that Essential Air Service is so essential that without it many communities in our country are going to evaporate, they are going to dry up. Indeed, I would remind you of how critical and how desperate the economy is in many parts of America.

We have a Swiss cheese economy in this country. The southern States and the coastal States are doing fairly well. It is the heartland states which are doing quite poorly, basically because commodity prices are lower now than they have been in the past several years and because of a national policy which tends to favor urban areas at the expense of rural areas.

Hospitals and air service, of all of the various forms of regulation, are probably the best example. It is important to remember that, as important as Essential Air Service is for most of the rural communities in America, it is even more important for the Rocky Mountain states and for the western states.

That is because of distance. There are vast expanses in the West. Many people in the East just do not understand that. They do not understand it because they have not been there. They tend to fly over America coast to coast. They do not stop in the western United States.

Let me give you an example. Wolf Point, Montana, is a major community by Montana standards in eastern Montana. It is 280 miles from the nearest hub. That is like driving from Washington, D.C., to Hartford, CT. You know, some of us in the Congress complain about driving to Dulles because it is too far out.

Well, think about driving to Hartford, CT, to catch a plane. That is just one example of many.

Glasgow, Montana, is 279 miles away from the nearest hub, and there is no alternate service transportation except a bus. But if you want to take the bus, you have got to go through Great Falls, MT, and that is a 15-hour trip one way. There is no alternative.

Senator Kassebaum mentioned that some service is essential and some might not be essential. I want to underline that this service

for the vast majority of rural communities is absolutely essential. Without it, these communities would dry up.

The second point is this. Some people suggest that these areas are not efficient, they do not attract industry, they should not receive Essential Air Service.

I would like to remind this committee that this country has a national infrastructure policy. We built a Federal highway system for all the States, not just the urban States but for rural States as well.

It is a national policy. It is a Federal program by and large that pays for it. Sure, some States kick in but it is still a national program.

The same is true for air service. I must remind this committee that it is not only people in these communities who need these airlines. It is also businesses around the country who need Essential Air Service for access to these rural areas. Why? Because these communities do business with businesses around this country.

Let us take agricultural parts. Take the combines or thrashing machines or a hay bailer that breaks down. It is important to get that machine serviced and to get a spare part immediately.

Where do you get the spare part? The spare part is basically made somewhere in some other state. It is important to get that part in. Those out-of-state companies need Essential Air Service to get their spare parts to these rural areas.

Take hospital equipment. These smaller communities have hospitals. We are desperately trying to keep the hospitals in these areas, I might add. Who supplies the equipment to these small hospitals in rural communities?

They are people in the big cities who need the Essential Air Service in the rural areas to provide the lab technicians, to provide the equipment in these areas.

A&S Industries is a firm that employs 500 people on the Fort-Peck Indian Reservation. They use Essential Air Service, about 17 times a month. Without it, there would be no A&S Industries. That is just one of many, many examples I can give.

There is Crisafulli Pump in Glendive, Montana. It contracts and sells pump parts around the country in 48 states. The point is again, without Essential Air Service, Crisafulli Pump would not be in operation.

Another point I would like to make is that we have to reauthorize Essential Air Service now. These communities need certainty. If they know Essential Air Service is going to be reauthorized, then they can begin to attract the businesses and be more stable.

Without it, if there is uncertainty about reauthorization, if there is a race to the clock next year, if we are worried about reauthorization, we know the uncertainty that that community is going to face. And a company is going to wonder, maybe it should not stay there, maybe it should not come in.

It is that certainty that we need so desperately. This program has to be reauthorized now.

There is also a political reason. Right now we have a vehicle, that is the Airport and Airway Capacity Expansion Act, which is before the Senate. I must say that if that bill goes through this year and we are worrying about Essential Air Service reauthoriza-

tion next year, who is to say where the political power is going to be to get Essential Air Service passed?

It has to be passed this year, and it has to be a part of the Airport and Airway Capacity Expansion Act.

Finally, Mr. Chairman, let me just wrap up with another related matter. I am the chairman of the Taxation and Debt Management Subcommittee of the Finance Committee. We are soon going to be taking up the fee portion of the airport improvement program.

I would like this committee's advice as to whether we should maintain the same level of fee or whether we should reduce it. There is about a $10 billion surplus in the fund. There are about $5 billion of obligations. Maybe we should reduce the fee. I would like the committee's response to that.

Second, I would like this committee's advice on whether we in the Senate should use that fund to pay for Essential Air Service. I mention that because many people come to me and say: Look, there are a lot of O&M dollars spent out of that fund for the FAA; why shouldn't Essential Air Service come out of that fund as well?

I would just ask this committee to consider these points, because they are all related as we work through a solution here.

Finally, let us get passed Essential Air Service soon. Otherwise, there are going to be countless numbers of rural communities that are just going to die.

It is a national policy to keep them alive. Let us reaffirm that policy very quickly.

Thank you.

[The statement follows:]

STATEMENT OF HON. MAX BAUCUS, U.S. SENATOR FROM MONTANA

INTRODUCTION

Mr. Chairman, thank you for the opportunity to testify this morning.

I want to begin by commending you for holding this hearing.

Compared to some of the other air service issues that come before this subcommittee, the Essential Air Service Program may seem like small potatoes. But for remote rural communities, it is extraordinarily important.

I also want to thank the subcommittee's ranking democrat, Senator Exon. He has been leading the fight to reauthorize EAS. I am proud to be working with him.

BACKGROUND: THE IMPORTANCE OF EAS

Rural America remains in the grip of an economic depression. Farmers, ranchers, miners, and timbermen are struggling to survive. This is an economic tragedy. As Franklin Roosevelt said, "This nation cannot survive if it is half boom and half bust."

Part of the answer is increased exports and higher commodity prices.

But another part of the answer is diversifying rural economies, so they don't have to depend so heavily on natural resource industries.

For economic diversification to occur, reliable air service is critical. In this day and age, it is almost impossible for companies to locate in places that don't have air service. This is especially true for the tourism and high-tech industries that rural communities are trying hard to attract.

THE ESSENTIAL AIR SERVICE PROGRAM

Since 1978, the Essential Air Service Program has provided modest funding to guarantee minimum air service to 138 rural communities. In Montana, EAS applies to Wolf Point, Sidney Glendive, Miles City, Havre, Lewistown, Glasgow, and West Yellowstone.

Mr. Chairman, EAS is essential.

It is an economic lifeline for the communities it serves. Without it, most of these towns would loose their air service.

This would be a major blow to rural America. The future of these EAS cities is tied to the future of EAS.

For example, Wolf Point, Montana, is one of the most isolated communities served by the Essential Air Service Program. Wolf Point is located in a county that is half the size of Massachusetts. The nearest hub airport is over 325 miles away. Can you imagine having to drive from Washington, to Hartford, Connecticut to catch a plane?

Without air service, Wolf Point would be economically isolated. In addition, medical, postal, and supply services would be dramatically curtailed.

REAUTHORIZATION

The EAS program is scheduled to expire next October. However, it is essential that we reauthorize it this year. Because the small communities served by EAS are so closely linked to its benefits, they need our decisions as soon as possible.

Air carriers, business and community leaders need to plan for the future. It would be unwise to put these small communities through the stress and uncertainty of a race-against-the-clock reauthorization next year.

For about $40 million annually, we have cushioned the shock of airline deregulation and helped keep 138 isolated rural communities economically alive. That is money well spent.

EAS should be quickly reauthorized. And we should take a hard look at ways to improve the program.

Because the EAS program has provided only bare bones air service, many communities have been unable to generate enough passenger traffic to develop viable markets. In short, we've planted the seed, but we have not given it enough water.

Improvements in scheduling, equipment, and marketing will help the Essential Air Service to better serve rural economies.

For Montana, the Essential Air Service is the key to rural economic development. Montana is charting a course for a new economic future. We need the Essential Air Service Program to get there.

An enhanced and extended program benefits Montana. It benefits rural America. It benefits all of US.

Mr. President I urge my colleagues to support the amendment to extend the Essential Air Service Program. For much of rural America, it is our link to the future.

EAS AND THE AIRPORT TRUST FUND

Mr. CHAIRMAN, that concludes my prepared statement relating to extension of the Essential Air Service Program.

While I'm here I'd like to comment very briefly on another issue with which I may need shortly to become involved because I chair the Finance Committee's Subcommittee on Taxation and Debt Management.

The issue I refer to is the large and still growing surplus in the airport and airways trust fund. The Commerce Committee's report on S. 1184, The Airport and Airway Capacity Expansion Act of 1987, indicates that by the end of this fiscal year the cash balance in the fund will total nearly $10 billion, and that of that amount only about $4 billion is encumbered by future obligations.

The USER taxes which supply the trust fund need to be reauthorized before their scheduled expiration on December 31st of this year. The finance committee doesn't yet have consideration of the reauthorization scheduled, but obviously we will have to address it soon.

In that regard, Mr. Chairman, I am hopeful that we will receive your and the rest of the committee's views and recommendations on what to do about the growing surplus. I think I agree with the report on S. 1184 that there are considerable unmet needs that the surplus funds could be used to address * * * and I would prefer that the rate of obligations be stepped up to the point where the surplus is utilized.

However, I assume that if that is to happen then something needs to be done to force it. Otherwise, it won't happen and—frankly—I can see no reason why the Finance Committee would not want to recommend a reduction in the taxes themselves.

As I said, we haven't gotten into the issue yet. But it's coming. And I am hopeful you'll share your with us very soon.

On a related matter, Mr. Chairman, I'd like to mention also that I am receiving recommendations from a number of people who are concerned about the continued

viability of EAS that that program be funded from the airport and airways trust fund. These individuals point out that not only would that assure the continued funding of the program, but also that EAS could be funded by using just a small part of the interest earned on the huge trust fund surplus.

I have not examined the suggestion, and of course before I reach any conclusions of my own I want to hear the Commerce Committee's opinion. However, I will say—speaking as one Senator whose State has a keen interest in the vitality of EAS—that if that were to turn out to be the only way of assuring the program's continuation at adequate funding levels, then I would feel strongly motivated to give it consideration.

That concludes all of my comments, Mr. Chairman. I would be pleased to hear your views on the issues of the trust fund surplus if you'd care to share them with me at this time.

Senator EXON. I thank you, Senator Baucus. Let me respond to your suggestions, which were good ones.

As you know, we have about $10 to $12 billion in the airport trust fund, paid for by a tax on tickets or a fee. You should not use the word "tax," I guess, though it is a tax. And this administration and previous ones, as you know, have not wanted to spend that for what it was intended, the improvement of airports and airport safety.

It may well be that we should tap the Highway Trust Fund for money for the Essential Air Service. If we would do that, I suspect we would open up a whole new can of worms and possibly some opposition.

I would simply point out that the amount of money out of some other fund, probably the general fund, for the few million dollars necessary to fund Essential Air Service and the importance that you have properly given it in your testimony this morning is so insignificant with all of the other funding that, whether or not we take it out of the trust fund, I certainly agree with you that it is something we should give high priority to.

Also, I think all the members of this committee generally feel that if we are not going to use that money as it was basically intended, to improve airports, to improve safety and to improve the convenience of the traveling public, which is what that fund was established for, then we should indeed, as you suggest, reduce or eliminate for a period of time that source of income rather than to allow it to continue to come on in.

I thank you for your testimony, and we are delighted to have you here.

Next I am going to recognize our friend and colleague from South Dakota, a former member of the House of Representatives who, before he came to the United States Senate, represented a tremendously large geographical area in the State of South Dakota as a member of the House of Representatives.

He is also a cosponsor of the legislation about which he is here to testify this morning.

Senator Daschle, I welcome you.

Senator STEVENS. Mr. Chairman, if I might, I do not know whether Senator Baucus is going to leave or not, but I would like to suggest to him——

Senator BAUCUS. I am at your service, Senator.

Senator STEVENS [continuing]. That we have a joint meeting with your subcommittee on finance and the Aviation Subcommittee here to work this out.

I happen to disagree with the Chairman about reducing the user fee on these tickets. I think the traveling public wants to pay for the improvements, and they want us to find a way to dedicate their money to the improvements they thought they were paying for all the time. If we do that, I think the Essential Air Service question would then be almost de minimis compared to the overall aviation program at the level of expenditures we should be facing.

We have several suggestions here to move that item off budget. I and Senator Inouye have introduced a bill to create an independent corporation similar to the Postal Service corporation to see if we can manage that money another way.

I do not want to hold up my good friend, Senator Daschle, but I would urge you to see if we can get together. We have beef caucuses, and we have electric caucuses and coal caucuses. We need an aviation caucus around here very soon if we are going to solve some of these problems and not lose the support that we currently have from the public.

Senator BAUCUS. I would be very happy to meet with the committee. I think that is a good idea.

Senator EXON. I think that is a good suggestion. We will see if we can work it out.

Senator Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman and members of the committee. I had not intended to speak on the trust fund, but let me say just a word or two about that as well, because I think it is very interrelated as to what we are here to talk about this morning.

Frankly, I think Senator Stevens' and Senator Exon's suggestions are excellent. First of all, I believe very strongly that we have to use the trust fund money, not just raise the money. We have to use it, and there is $5.6 billion in that trust fund that has not yet been used.

There are cities all through the upper midwest, not only in South Dakota but around the country, that need that money; money for microwave landing systems that has not been spent; money for instrument landing systems in South Dakota that need to be used very desperately.

We just had a plane crash in Mitchell, South Dakota not long ago in part because we did not have the kind of service that should be there by now.

So I would hope, number one, that we would allocate that fund; number two, that we would spend it; and, number three, that it would be off budget. I think the recommendations here to get together make a great deal of sense.

I am here to talk about the Essential Air Service, and if I could I would like to submit my statement and the statement of Congressman Tim Johnson from South Dakota for the record.

Senator EXON. We will be pleased to accept both of those without objection.

Senator DASCHLE. Thank you.

Very briefly, Mr. Chairman, let me just say this. I think it is very interesting that since deregulation during the last 10 years, we have seen an increase of 50 percent of enplanements across the country, and I use that statistic because it struck me the other day that just as we have seen a dramatic increase in enplanements around the country, now 415 million a year, expected to be 600 million a year by 1990, we also have seen that exact same percent decrease enplanements in South Dakota.

While there has been a 50 percent increase in enplanements across the country, there has been a 50 percent decrease in enplanements in South Dakota. We have gone from 105,000 in 1978 to 57,000 last year.

As bad as that is, in the February 1987 report to Congress, the Department of Transportation said that were it not for the Essential Air Service Program, we would see a complete abolition of service in the 4 EAS communities South Dakota altogether.

These communities, now enjoying transportation service, would no longer enjoy it were it not for the fact that we have EAS in South Dakota today. That, to me, meets the definition of essential if nothing does.

So it is critical that as we understand that while 100 percent of air service currently subsidized by EAS in South Dakota would be detrimentally affected by the loss of EAS, about 50 percent of those communities now enjoying Essential Air Service would also lose service across the country.

Given these very stark realizations, I support the extension of the Essential Air Service in this particular bill, S. 582, for three reasons.

First of all, it is no secret that in the upper midwest in particular we have faced an economic crisis the likes of which I have not seen in my lifetime. As we come to the realization, as we come to grips with how we are going to address that in the future, every official in my state has come to the conclusion that it is critical that we diversify our economic base, that we come up with ways in which to bring industry to South Dakota and the upper midwest unlike we have ever been able to do in the past.

In study after study as we have analyzed what we need to do to insure that that economic diversification continues, the issue of air service comes up. Each and every time, businesses or governments are asked what is the criteria by which you will decide whether you come to a rural community, one of those at the very top is whether or not a community has air service.

Progress has been made in this, but, clearly, if we are going to continue this is not the time to take away Essential Air Service. One in seven people in South Dakota enjoys the benefits of Essential Air Service today.

The second reason, in rural communities like mine and in Alaska and Nebraska and so many other states, is that our options are very limited. We have no passenger rail service in South Dakota whatsoever. We have almost no bus service in South Dakota now. People in my state have only one recourse, and that is to use automobiles if air service is not there.

I do not think anyone could better explain the ramifications of automobile usage when you are 300 or 400 miles away from the

closest airport. So transportation availability and the options there are critical to the choices that we must make in considering the definition of essential.

The third point, which to me is one of the most important things for us to consider, is whether or not as we adjust to deregulation we have really considered the broad ramifications of the transformation that has existed both in the airline industry as well as in the agricultural and rural communities themselves.

There has been a radical transformation. In the last 50 years, no one has seen that transformation more starkly than those in rural areas.

As we go through this transformation, as we try to cope with all of the contingencies, the ramifications of the impact of those transformations in rural America, now is not the time for us to say we are going to pull away one of the most significant tools that we have been able to utilize in dealing with the transformation from an agricultural to a diversified economy and from a regulated to a deregulated environment for air service.

So for all those reasons, Mr. Chairman and members of the committee, the fact that we are going through an agricultural transformation, the fact that we really do not have transportation options, the fact that as we go through deregulation South Dakota and rural communities have been hit harder than anybody else, we hit a home run when we talk about the definition of "essential", as Senator Kassebaum outlined.

For that reason, I strongly support S. 582.

[The statement follows:]

STATEMENT OF HON. TOM DASCHLE, U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, I am pleased to have the opportunity to testify in support of S. 582, the Community Air Service Act, which extends and improves the Essential Air Service Program, and thank you, Mr. Chairman, for scheduling this important hearing.

I would also like to commend Senator Exon for his leadership on this legislation, and am pleased to be an original cosponsor of his bill. There is no question that the Essential Air Service [EAS] program has been important to South Dakota and to rural communities throughout the United States, particularly as a tool for sustaining and expanding economic development. I believe that the testimony today will bear out the need to not only extend the program, but to modify it in the manner proposed by S. 582.

Before I proceed with my comments on EAS, however, I would like to take a minute to commend you, Mr. Chairman, and the other members of this Committee for reporting out the Airport and Airway Capacity Expansion Act of 1987. This legislation contains a significant increase in funding for airport expansion and air traffic control modernization. These additional funds are particularly important for small towns in South Dakota like Brookings and Mitchell that seek to improve the safety and capacity of their airports. Both are in critical need of either an Instrument Landing System or a Microwave Landing System. You can be assured of my support for this important legislation.

The Airline Deregulation Act of 1978 has been very successful, on a national level, in opening up air travel to Americans. Airline passenger service has shot up from 275 million passengers in 1978 to 415 million in 1986. Smaller communities, however, have not reaped the benefits of deregulation, despite the inclusion of Section 419 of the Federal Avaition Act of 1958, as amended by the 1978 Act, which created the EAS program.

The intent of Congress in establishing the EAS program in 1978 was to guarantee that communities already receiving air service would continue to enjoy basic level of service in the years following the deregulation of the airline industry. It was determined then that qualifying communities would be eligible to receive "essential air serivce" for ten years, time enough to allow for the establishment of competitive air

service independent of government intervention. We know today that was not enough time.

Ten years ago, air service in 202 communities in 48 states received EAS subsidies. Today, a total of 97 communities, or roughly 50%, continue to have their service subsidized. Since 1978, traffic has declined at most essential air service communities. In South Dakota communities, enplanement levels have dropped by almost half, from 105 thousand to approximately 57 thousand, over the past decade. Clearly, the program has not had enough time to accomplish the goals set out in the Airline Deregulation Act of 1978.

One of the primary causes for the drop in air traffic in South Dakota and other rural states is the economic hardship these regions have sustained over the past decade. The recession, the on-going farm crisis and increased competition in world markets have taken their toll. Nevertheless, South Dakota is responding to the challenges it face, in part through diversifying its economic base.

Continued air service to South Dakota's smaller communities is crucial efforts to sustain and expand economic development. Seven EAS designated communities are located in South Dakota—Aberdeen, Brookings, Huron Mitchell, Pierre, Watertown, and Yankton—with a total population of approximately 107,000. In other words, one in seven South Dakotans reside in communities which are effected by the EAS program.

In its February 1987 Report to Congress on Subsidized Air Service Program, the Department of Transportation concluded that air service to all four of the South Dakota communities currently receiving EAS subsidies—Brookings, Huron, Mitchell and Yankton—"would probably be discontinued." Approximately 70% of the communities nation-wide (excluding Alaska) currently receiving subsidized service "would probably lose all service." This would be a tremendous blow to South Dakota communities and small towns across the country working hard to revitalize their economies and create jobs.

In recent textimony before the House and at a Senate field hearing in Iowa, small business representatives stated repeatedly that access to reasonably priced air service is important to the economic vitality of a region. This influences not only firms evaluating potential sites, but existing firms as well. Companies cannot compete nationally or internationally if transportation costs comprise a large percentage of their total operation costs.

This is particularly true in my state. Numerous South Dakota businesses have admitted that the availability of air service has been a key factor in their decision to locate or expand their operations in EAS communities. These decisions determine the creation or loss of thousands of jobs. As Ms. Patricia Eidsness, of the South Dakota Aeronautics Commission will testify today, access to air transportation and frequency of flights is at the top of business' priority list.

On a more fundamental level, discontinuation of EAS would also severely limit South Dakota's transportation options. In South Dakota, passenger rail service does not exist and interstate bus service is limited, leaving private automobiles as the primary alternative to air travel. South Dakotans, like all Americans, deserve access to adequate transportation systems.

S. 582 addresses the problems of ensuring adequate air transportation for economic development and reasonable transportation options. First, it extends the essential air service program to provide adequate time for air service to rural regions to stabilize and operate independent of federal surpervision or subsidy. Second, it upgrades basic air service by requiring equitables fares, establishing a 15 passenger minimum capacity, and requiring morning and evening flights. Third, the bill encourages service beyond hub cities, improving access to major destinations nationwide. Fourth, it provides a cost-sharing mechanism between state and federal government for non-eligible communities seeking to enhance air service. Finally, S. 582 provides a more equitable mechanism for compensating air carriers that no longer wish to serve a given community but that are obliged to under current law until a replacement carrier is found. In short, this legislation represents a responsible answer to the problems that plague the Essential Air Service program, and provides crucial assistance to small communities struggling to revitalize and diversify their economic base.

I look forward to working with you, Mr. Chairman, Senator Exon and my other Senate Colleagues to ensure the successful passage of this important legislation. Thank you.

Senator EXON. Thank you, Senator Daschle, and thank you for your vigorous testimony and your early support and co-sponsor of this legislation.

When you said in your testimony that South Dakota is facing the toughest economic times in your lifetime, it reminded me that there was a time in South Dakota that this Senator remembers, in the early 1930's period, when the state was hit probably as hard, if not harder.

Nevertheless, I simply say that I think it is not fully understood in other parts of the country the economic situation of rural American today. I think that you have highlighted this condition very effectively. I congratulate and thank you for that. Sometime I will tell you about the 1930's.

Senator DASCHLE. Mr. Chairman, I knew you were an oldtimer. I just did not know you went back that far.

Senator EXON. I am an old, old, old oldtimer.

Thank you, Senator.

I am very pleased now to welcome my colleague from Nebraska, Senator Karnes, for his important testimony on this bill.

Senator Karnes.

STATEMENT OF HON. DAVID K. KARNES, U.S. SENATOR FROM NEBRASKA

Senator KARNES. Mr. Chairman, it is a pleasure for me to submit my views regarding the continuing need of this Essential Air Service program. I am taken by the many remarks that have been made by people from all parts of the country regarding the importance of this service. It sends a very strong message, I think, that not only is this service important but, once again, everyone has focused on the definition that this legislation has, and that is essential. Indeed, in Nebraska it is deemed to be essential.

Rural states like Nebraska with many small towns that are relatively isolated and distant from major population centers have experienced a real decline over the past decade in available, affordable and reliable transportation. Bus and rail service has been cut or stopped altogether in many towns to the point that neither serve the needs of many Nebraska communities.

This is the day and age where travel is a prerequisite for economic opportunity to knock at the door of Nebraska's small and medium-sized communities.

Speedy communication is also essential. Economic success is dependent upon access to key communities. The buzz words of business today are speed, access and availability of facilities and transportation. If communities in the midwest are to be included in the communications revolution and the economic development efforts that we are expecting, we need to make sure that they are operating on a similar playing field as more accessible areas in the country.

The fourth coast portion of the United States, as I call it, those areas that are part of the central midwest that adjoin major rivers, have become a stepchild in the competition for Federal contracts and economic development opportunities because of the lack of transportation accessibility.

EAS is an economical means of providing important medium-sized communities and small communities across the country comparable transportation access. This does not provide comparable ad-

vantage over other cities. It just provides comparable opportunity to larger metropolitan areas.

The honorable mayor of Scottsbluff, Nebraska, Mr. Don Overman, has traveled here from Nebraska to attest to this fact today before the committee. I would like to thank him in advance of his testimony for making this effort to speak before this committee on behalf of Nebraskans.

Clearly, the availability of reliable air service is a matter of prime importance to the people and industry located in rural communities. Those communities presently being served by EAS are dependent upon it for their link to large air hubs.

Communities attempting to diversify their economic base beyond agriculture, as many are in Nebraska, and which is a common occurrence in these hard agricultural times that many of you have already referenced, rely upon this service as one of the means of attracting business and industry. The termination or reduction of scheduled air service can strike a death blow to the economic growth efforts of many of these communities and states.

Of course, the quality of life issue is very relevant as well. I am disturbed that the population of many small towns in our country are either holding steady or rapidly declining at the same time that the national population is increasing, particularly in the metropolitan areas.

It is clear that many young people are determined to leave the small towns of their youth, opting instead for life and employment in larger population centers to a certain degree because of the ease of access.

In smaller Nebraska communities currently serviced by EAS, such as Columbus, Scottsbluff, Alliance, McCook, Chadron and Sidney, to name a few, the local populations range roughly between 6,000 and 18,000 people. Other Nebraska communities, such as Grand Island, Norfolk, North Platte, Hastings and Kearney, are in the population range between 20,000 and 38,000. I suspect that without the continuation of good, reliable, convenient air service, these populations will deteriorate significantly.

There is a substantial cost factor that we must consider when we look at the Essential Air Service Program. In order to meet the rigorous spending discipline that Congress has placed itself under, it is my opinion that we should keep the EAS Program as streamlined and as lean as possible if that is required to keep the program going.

Of those airports in Nebraska that are currently funded under the program, six are scheduled to receive funds through January 1988, at which time the annual amounts received will be reassessed, and I think that is important. This involves approximately $1.2 million for those six airports.

In addition, we have five airports that are scheduled to receive funds through October 1988, which is the date that the EAS Program is presently scheduled to end. These funds amount to approximately $1.4 million, which includes slightly over $450,000 for direct air service, for example, between Grand Island and Denver.

The total amount of funding that Nebraska communities receive under the current EAS program is only $2.8 million. We have made cuts in Nebraska. We have made cuts that are affecting not

just the convenience, as we have addressed today, but to a certain degree have cut into the bone and not just the fat of our service.

It is key to keep reliable and regular air service to small communities rather than let the current system expire in October 1988 as current law provides. Any opportunity to enhance the program would certainly aid in the development of rural America, as all of us can attest.

Air service has become increasingly difficult in central Nebraska under current law, and allowing the EAS Program to expire would certainly make matters worse.

Mr. Chairman, I particularly applaud your efforts to examine this problem of the EAS expiration now. The certainty of this program is very important for all citizens of Nebraska and rural communities throughout the country. America's economic growth is contingent upon the continuation of such transportation access to small communities where we have such tremendous talent in human resources.

I look forward to working with this committee to insure that much of the needed continuation of this program is passed by this Congress.

Again, Senator Exon, my colleague from Nebraska, and all committee members and the other co-sponsors of the bill, I would like to thank you in particular for having the foresight to bring this issue up early. I am pleased to be here to lend my support.

Thank you very much.

Senator EXON. Senator Karnes, thank you very much for your statement. It is on point. You grasp the situation completely as far as rural America in general and Nebraska in particular is concerned, and I thank you for it.

I also appreciate the fact that you have just said that you wish your name to be added as a co-sponsor, and we are just delighted to have you.

I have no further questions of this panel. Do any of my colleagues have any questions?

[No response.]

Senator EXON. Thank you very much for coming, all three of you, and for taking time out of what I know is a very busy schedule. It shows the importance of this to not only rural Nebraska but our air transportation in its totality.

Thank you for being here.

Senator BAUCUS. Mr. Chairman, I wonder if I could have included in the record copies of correspondence and telegrams I received from Montana in support of this?

Senator EXON. We would be very pleased to have those, and without objection they will be made a part of the record.

The next witness that we are going to have today is the Honorable Matthew V. Scocozza, Assistant Secretary for Policy and International Affairs of the Department of Transportation.

Welcome to you, Mr. Scocozza. You, of course, are well known here because of our past working relationship with you. If we can get reauthorization of the Essential Air Service, you will play a key part, as you have in the past, in working out the details of this as far as the administration is concerned.

Matt, welcome and thanks for coming here this morning.

STATEMENT OF MATTHEW V. SCOCOZZA, ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Mr. SCOCOZZA. Thank you, Mr. Chairman and members of the subcommittee. It is always a personal pleasure to be in this room because, ironically, 10 years ago EAS was born here about 2:00 a.m. It was late 1977 when the thought first developed and 1978, obviously, when it was turned into the formal amendment that it was ultimately passed.

I do have a much longer statement, Mr. Chairman, and for the committee's time I will do a much abbreviated version. With your forebearance, I would like to just read it.

Senator EXON. Please, and we will accept your full statement for the record, Mr. Scocozza.

Mr. SCOCOZZA. As you know, for the past three years the Department has proposed that funding for the Essential Air Service Program be discontinued. Obviously our decision to recommend terminating airline subsidies was based in part on the deficit problems and the need to reduce Federal spending. It was also based on the analysis of the costs and benefits of providing local air service in extremely small communities with limited traffic demand.

At the direction of Congress, we undertook and submitted a report on subsidized air service under the Essential Air Service Program. That study provides a detailed and objective examination of the level of demand for air transportation at the small communities covered by the program, their isolation and access to alternative air transportation centers and the cost of maintaining air service at their local airports.

I would like to share with you some of the specific findings of the study. First, the number of passengers benefitting from the program is extremely small. Altogether, the 102 subsidized communities in the continental United States generate a total of 850 emplanements per day, which amounts to less than .01 of 1 percent of all air travel in the country. Forty-three of these points emplane five or fewer passengers per day, and 23 points are emplaning between six and 10 passengers per day.

Second, over half of the subsidized communities are within 75 miles of another airport. Many of these are connected by interstate highways to nearby larger air transportation centers that offer better opportunities in terms of both service and fares. Only a few communities are isolated from the air transportation system.

Furthermore, travelers are choosing to drive to alternative airports rather than use the service at the smaller local airports.

Third, the subsidy cost of providing service at these communities is exceedingly high in view of the numbers of passengers accommodated. At 24 communities, the subsidy per passenger exceeds $100. For six of these communities, the subsidy per passenger exceeds $200. At one community, the subsidy exceeds $500 per passenger.

Finally, the commuter carrier industry has developed with more sophisticated aircraft and expert management to the point that it can respond to the needs of the small communities through the marketplace without our intervention.

In view of these circumstances, we continue to recommend that the program be terminated. We recognize, however, there is considerable interest in continuing to guarantee air service to small communities with Federal subsidy. Several bills have been introduced in the Congress to accomplish this, and I would like to comment on a couple of the provisions in them.

The draft bills propose various requirements with respect to minimum frequency, maximum number of stops, specific size or type of aircraft, timing of flights, average load factors, and the types of hubs to which service must be provided. Our approach in administering the EAS Program has been to allow carriers providing EAS some operating flexibility within reasonable limits designed to insure that the service is usable to the traveling public.

Our objective has been to enable carriers to devise the most efficient service patterns which will have the best prospects of achieving self-sufficiency. This approach is in the long-term best interest of the communities.

Some of the proposed service requirements, such as the 50 percent average load factor standard, minimum 15-seat aircraft, and especially the requirement in S. 582 that flights be operated within limited time spans would not only increase the overall subsidy by some $10 to $15 million but, more importantly, would virtually eliminate the possibility of achieving self-sufficient operations.

We note, for example, the 50 percent average load factors are not economical on many airline operations. Similarly, the establishment of limited time zones for morning and evening scheduling requirements and the maximum of one intermedian stop may prevent a carrier from taking into account the special logistical circumstances for various communities.

One of our most important observations about the EAS Program is that the success stories, cases where air service has graduated from subsidy dependent to self-sufficient, have occurred primarily as a result of air carriers exercising flexibility to establish the most efficient package of service and promotion. Thus, imposing these less flexible obligations could be detrimental to both the carriers and the communities being served.

Before any specific requirements are imposed, I would urge you to consider very carefully our analysis of the potential impact of various provisions, weighing both the service benefits and the costs. We have examined these issues for some of the proposals and are prepared to provide additional analysis and views to the Congressional staffs as requested.

For example, the enhanced service proposal, which contemplates a 50/50 sharing of the added subsidy by the communities and the Federal Government, would result in substantially higher subsidy costs for the Federal Government if a large number of communities participated.

In addition, it presents potential administrative problems in coordinating with communities and negotiating with air carriers. All of these concerns need to be fully explored.

With respect to the level of funding, S. 876 indicates that $30 million will be authorized for the program for each fiscal year. That level of funding would probably be inadequate for the levels of service required by the proposed new provisions. If all of the

service requirements currently proposed are enacted, total subsidy costs could potentially double.

Finally, S. 582 would make all subsidy contracts subject to the Contract Disputes Act of 1978. The objective of that provision would appear to be to afford carriers recourse to an outside decisionmaker when a dispute arises between the EAS staff and the carrier as to the appropriate subsidy for the operations.

Extending the Contract Disputes Act to EAS subsidy rates would impose considerable administrative requirements that could adversely affect the efficiency and effectiveness of the program and place added paperwork and administrative burdens on these small carriers.

Thus, mandating that the Contract Disputes Act be applied to EAS subsidy rates would not be a net benefit either to the carriers or to the government, and we strongly recommend against it. Alternative administrative procedures could be devised to address the concern of carriers for review of rate disagreements.

As I have indicated, we are prepared to assist this committee and any members of your staff, Mr. Chairman. I would be delighted to respond to any questions.

Senator EXON. Mr. Scocozza, thank you very much for your testimony. You have brought up some points that I think are of concern to all of us, and we have to write this legislation as carefully as we possibly can to accomplish the goals and still make it reasonable and responsible to fiscal constraints.

I would simply say, speaking for one member of this committee, if Matt Scocozza was the Administrator of the program, and we could depend on the fact that he would be the Administrator of the program from here on out, that because of our previous working relationship with you, we probably would not have to write some of the details into this legislation that currently exists.

However, I must say to you that no criticism of you whatsoever is intended because, while we have not always agreed, I think we have found you forthcoming and understanding because of your previous experience here and the good working relationship we have had with you.

That is not always the case, as we have found, with the bureaucracy up and down the Department of Transportation and other agencies of the Federal government. How we bridge that gap of understanding, I am not sure.

I think, since you were in on the incubation period of the Essential Air Service program, you have a much better understanding of what the Congress wanted to do in that area than does someone who did not have that experience. So if it were possible for us to put this money into the hands of Matt Scocozza, I would suspect that most of the members of the committee would say yes, we know what his attitudes are and his attitudes probably are pretty much in tune with the general attitudes of the members of the committee.

But we do want to work with you, and we appreciate very much your forthcoming offer, as you have always been forthcoming, to help out in working out the details of the bill.

Let me just say that Senator Kassebaum brought this up. You brought it up in your testimony, directly or indirectly. I do not be-

lieve that we can afford forever to have a subsidy where we have an extremely limited number of boardings or enplanements, whatever you want to call it, from a given area.

In our personal conversations from time to time, you have brought some of the inequities to my attention, and we are mindful of those. I remember one incident you told me about where between two communities most of the people rode buses, but we were still subsidizing them with the present Essential Air Service program, and I think they had an average of two or three enplanements.

Mr. SCOCOZZA. Three a day, at $169 per person.

Senator EXON. Now, that is not what we want or intend. But I would say when we make hard and fast rules there are always exception.

Thank you for your help and thank you for your consideration. I have no further questions.

Senator Pressler.

Senator PRESSLER. Thank you very much.

We welcome you here. Let me ask you this: Do you support or oppose S. 582?

Mr. SCOCOZZA. Being a part of the administration, Senator, I would respond to that question with the administration's position. We are opposed to any legislation which extends the EAS program.

Senator PRESSLER. So you are opposed to the subsidies we are talking about?

Mr. SCOCOZZA. Our position is confirmed by the context of a study that we recently completed. I would be delighted to have a copy for the committee use. I believe some were sent earlier.

That showed that we believed that service would be picked up in all of the communities across the nation, with the exception of 70 communities, and including the Alaska communities would continue the service.

Senator PRESSLER. Well, let us talk about South Dakota for a moment. Several communities there—Brookings, Huron, Mitchell, and Yankton—are they among the 70? Can you check that?

I believe they are areas that would not be picked up.

Mr. SCOCOZZA. I believe the report indicates that, out of all of the communities—there are a number of communities that receive regular service in South Dakota, Senator. The four are only subsidized. Complete service would not be removed from South Dakota. The other communities, other than the subsidized——

Senator PRESSLER. Would you look in your book there for Brookings, Huron, Mitchell, and Yankton, South Dakota? Could you?

[Pause.]

Mr. SCOCOZZA. I have Brookings, Huron, Mitchell, and Pierre.

Senator PRESSLER. I think Yankton is in there, too. Maybe it is on another page.

Pierre is an unsubsidized EAS point.

Mr. SCOCOZZA. Right.

Senator PRESSLER. But I think that those four are subsidized—Brookings, Huron, Mitchell, and Yankton. I don't know if you have Yankton there or not. Do you?

Mr. SCOCOZZA. No, I don't.

Senator PRESSLER. Well, as for Brookings, Huron, Mitchell—I have Pierre listed down as a nonsubsidized EAS point—are these four they in the category of the 70 which would lose service?

Mr. SCOCOZZA. Of the 70, yes.

Senator PRESSLER. So there would not be air service there?

Mr. SCOCOZZA. That was based on the information that we had from our study. We also found out that—we have also summarized the general air service in the individual states and found that South Dakota has actually had a 12.1 percent increase in service between 1985 and 1986.

Senator PRESSLER. Well, that might be in Sioux Falls and Rapid City. But the communities I am talking about—Brookings, Huron, Mitchell, Yankton, Aberdeen, Pierre, and Watertown—these are what we are talking about here today as the Essential Air Service cities. You would not contend that they have had an increase in service, would you?

Mr. SCOCOZZA. No, Senator. I was about to continue that in three out of the four EAS communities, there has been a decrease. I do not have the specifics on which one of the four had the increase, and I would be delighted to provide that to you. But three out of the four did have a decrease in service.

Senator PRESSLER. Of course, we are talking here that in Brookings we board in 1986, 2,853 outbound. In 1985, 3,211; in 1984, 2,726.

In Huron, we are talking about 2,800 in 1985; 2,900 in 1986.

In Mitchell, we are talking about 1,400 outbound passengers per year; 1,200 in 1985.

In Yankton, we are talking about 1,900, last year 1,042. So those are probably fairly small numbers.

It is true that these alternative services in some of the smaller communities have dried up, so to speak, and it is possible that Sioux Falls and Rapid City passengers have increased. We are a unique state in the sense that our state capital is an EAS point, and some of our outbound numbers there range from 11,000 in 1986 outbound.

We have had as much as 23,000, 32,000 in 1980. The reason for some of those declines I think has been irregular service and less attractive service. Back in 1976 there were 36,000 outbound passengers from Pierre.

In any event, it seems to be the position of the Administration, if they are opposed to this legislation, that air service would not continue in these 70 cities? That would be the administration's assessment. So what do you say to those 70 cities?

Mr. SCOCOZZA. Senator, I hate to respond to something like that and to say to somebody that you cannot have air service. I do not know if productive air service can be put together. I am not specifically familiar with those particular points.

But I do know, for instance, that in Yankton, South Dakota, there are three passengers a day. I do not know what alternative forms of service could be made available. I do not know, if air service were discontinued, that there may be express limousine service that would take these average three people a day to the nearest hub.

Senator PRESSLER. Well, let me say that there are three passengers per day, but there have been as many as six times that many in 1979 outbound. The number of passengers depends on the quality of service and the regularity and so forth.

We have had small airlines coming in and going bankrupt. I am not talking about Yankton particularly, but there have been a series of turn-overs. These commuter airlines which were supposed to spring up and be so prosperous, maybe they have in some areas of the world, but I have been on the maiden flight of two or three and they have gone out of business.

Mr. SCOCOZZA. The commuter industry has gone from carrying 11 million people in 1978 to close to 29 million people in 1986 and close to 30 million, we hope, this year.

Senator PRESSLER. That maybe true, but it is not true in South Dakota. The trend is the opposite.

Mr. SCOCOZZA. I am talking about the qualifications, Senator.

Senator PRESSLER. I am talking about these 70 cities now. And I know that there are other areas of the country where there in sufficient service to small communities. But we are talking about a unique small city problem across the country, not just South Dakota.

Now, I am not picking on you personally, because you are a fine fellow. But what the report before you says, what the administration has said, is: We can see that there will be no air service for these 70 cities. You said you did not know what the dynamics of it was, but the report from your Department which you represent has concluded that without the subsidy—that is, if this bill does not pass—there will not be air service there.

Mr. SCOCOZZA. Once again, Senator, the appropriations bill was passed in the early fall and we were required to have this huge document done by February. And on the basis of our quick review—and we went to every EAS community, practically, to have hearings—it was our basic belief that 70 communities would lose service and that service as we know it in Alaska would probably stay, with less frequency.

Senator PRESSLER. Well, I think we should know what we are talking about here. Yankton may have only boarded 1,000 passengers outbound last year. But in 1979 they had 6,200 outbound and probably that many inbound.

So the amount of traffic depends on the quality of service that is available.

Also, I think we have to face the facts that what your report says is that in my state we probably would not have—we very well might not have air service in our capital city, based on your report. Is Pierre, South Dakota, among the 70?

Mr. SCOCOZZA. No, it is not.

Senator PRESSLER. Pierre is not, but it is very close, I would guess.

Mr. SCOCOZZA. It is just of the four EAS communities, and I believe there are seven major airport communities in South Dakota. But at least three of the four would probably not have service, maybe the fourth, but certainly not your capital.

Senator PRESSLER. Well, Pierre would have to be very close to the line. Probably if you extended that list to 90 cities or something like that, Pierre would be among them.

So we have a situation in South Dakota where our state capital would not have air service.

Mr. SCOCOZZA. I do not think that would be the case, Senator, because it is not subsidized today. There are commercial carriers that go there, and I do not see any desire for them to leave or any indication that they would leave.

Senator PRESSLER. But the numbers are very dangerously close according to the chart that I have got. I appreciate what you are saying, but your own report from the Department of Transportation, the Department that you represent here, regardless of how you feel, would indicate that in my state we would be down to three, four, five, five points where airplanes land.

And that is a very serious thing to me as a Senator from that state. It is very serious in trying to attract new industry and so forth. So I hope you understand that.

Mr. SCOCOZZA. I think our figures also show that of the population in the state of South Dakota, 107,000 people—I believe the population is 607 or somewhere in excess of that. 107,000 people could be served by the EAS airports or are in the proximity.

So about 20 percent of the state's population is close to the EAS communities.

Senator PRESSLER. I would say it is much higher than that. It depends on how you figure it. If you have Brookings, Huron, Mitchell, Yankton, Watertown, Pierre, Aberdeen, I would bet you I would come up with a figure closer to 350,000. But we could debate about that.

Senator EXON. Thank you, Senator Pressler.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Mr. Scocozza, we had an incident that to me is kind of symbolic in West Virginia. We rank fiftieth in the country among all states in terms of Federal research and development grants, and that is from the point of any West Virginian outrageous and it is something which I as a Senator am determined to try to change.

So we are looking at how can we try to attract new kinds of industries and what can we do to improve our research capacity at our universities, for example, and get those out to small business.

I asked Eric Block, who is the director of the National Science Foundation, an extraordinary person, and he agreed to come to West Virginia University. He is the first director of the National Science Foundation to have ever been to that university, which is our premier land grant university.

Well, he could not get in there except by private plane, and then he was scheduled out the next morning on a flight, which was cancelled. So he drove back to Washington from Morgantown, West Virginia.

Now, what I am trying to think is, the next time that Eric Block of the National Science Foundation, dispenser of funds, inspirer of engineering and other faculties at West Virginia University, is asked or his staff is asked to come back to Morgantown, how quickly will he come?

Now, that situation is not an isolated one. I was informed a couple of days ago of a major industry which our state has been pursuing, that it is not going to be coming to our state. One of the prime reasons they gave was air transportation. Now, that was not an Essential Air Service problem; that was deregulation.

Deregulation, which must be the worst thing this committee ever did and this Congress ever did, doubled the cost of air flights in West Virginia within a year or so, tripled it within another year or so. It costs $150 to get from one point to another in West Virginia. You can get to California cheaper.

Now, my question is, in states like West Virginia and rural states, which are the rural majority of the states—we are the second most rural state in America behind Maine—where we have a coal economy, a steel economy, glass, shoes, textiles, all of which are endangered, how can the Department of Transportation, looking at $30 million, which is what the military bands spend in a couple of weeks, how can they honestly suggest that by taking away the maximum or all of that money that states can have, rural states can have, an honest chance at attracting industry, at attracting research and development, at attracting an honest means of trying to diversify their economies and pull themselves up by their bootstraps?

Why is not Essential Air Service, in terms of economic development, an absolute rationale—one of the things this government must do when the economy is so clearly changing and so clearly putting rural communities at a disadvantage?

Mr. SCOCOZZA. Senator, if I can I would first like to say that my remarks are not going to be aimed at any West Virginia community or Tennessee community, where I am from. We are going to lose and have lost a number of small cities service in proportion to the explosive growth of service to the state in general. I am talking about Tennessee.

But what I do have to be very honest about is that when I was in this room at 2:00 o'clock in the morning as a staff member, Essential Air Service was grown partly out of a concern by a lot of Senators for the potential loss of service to a lot of small communities, but also out of a way to get enough support for airline deregulation, which has helped this country a great deal.

And I respect your position on it, but I believe the $8 billion a year it participates to our GNP, a permanent .4 percent increase, has been very positive for Americans in general.

Now, when we are getting specifics to individual cities, I have to honestly say, Senator, that it does not have the right name. Essential Air Service really in some communities, I think, clearly you can make an essential need, an essential case.

But in other communities, when you are within 30 miles of a major metropolitan airport and we are spending $300,000 to fly people to Denver, two on a plane a day, I just do not know how you can consider that essential.

Now, I do not want to say to a mayor that he should not have service in his particular city, but our transportation pattern has changed in the last 20 years. The airports that we have for the most part were designed in the forties and the fifties, and it has turned out in my own home state, in Tennessee, Tri-Cities Airport

was a big metropolis, was a Piedmont hub at one time. Now it has sparse service and it has just small propeller aircraft.

Knoxville, Tennessee, down the road has exploded, and Charlotte grew up out of the swamps, and these are positive things for my southeastern region of the country. But I would have to say that when we say essential air service, it means like are we going to remove the heart of America. Perhaps in some cities it is essential and it always has been essential, and if this program continues it will continue to be essential.

What I would have to say honestly, Senator, is honestly I have looked at all of the communities. There are a lot of communities that have Essential Air Service only because there is a statute that guarantees it, one or two passengers a day; mayors, airport managers, saying: Well, look at it this way; if I insist on it being continued, I at least have one or two jobs at the airport.

That is a legitimate concern, and if I were a mayor or a city manager of those particular airports I would say the same thing. But I do not think it particularly contributes to the economic development of a particular area.

Senator ROCKEFELLER. But you are not trying to categorize that as a way to keep a couple of jobs at an airport? I mean, you do not seriously consider that those of us on this committee look upon such service as that?

Mr. SCOCOZZA. No, I would not intimate that at all, Senator. But there have been situations where we have been involved in negotiations with local airports and we have said: Listen, you only carried one person a year on the plane last year. And the local concern is saying: Well, look at it this way; we are guaranteed it, are we not?

And then they translate that into perhaps some incremental benefits, because when you have an airplane servicing an airport there are incremental benefits to the community: the servicing, the gasoline, the food service if there is any, the maintenance of the plane itself.

And the local community who has the option to say, yes, let it go away—and a lot of communities have agreed to let Essential Air Service discontinue.

Senator ROCKEFELLER. Because the chairman is tapping his pencil, will you just tell me if Elkins, Morgantown, Clarksburg, Beckley, and Bluefield are all cancelled in the Department of Transportation's proposal for Essential Air Service?

Mr. SCOCOZZA. I would, with respect, Senator, I would have to get back to you on that. I do not have all of the statistics in one place. But I would be delighted to get that back to you today.

Senator ROCKEFELLER. Beckley, Elkins, and Bluefield all lose their service, evidently, under your proposal.

Mr. SCOCOZZA. If that came out of this green book, I would say that would be the source. And your staff is nodding yes, so that would be the information I would provide you.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Senator EXON. Thank you.

Mr. Scocozza, in winding down your testimony just let me say that you have made some good points. Once a point is made, there is always another side to that. As far as Nebraska is concerned—and I am going to cite some key Nebraska communities that ac-

cording to that book would lose all of their air service unless we have an Essential Air Service program going to those cities. These are probably without question the key cities in Nebraska, with the exception of the well known major ones.

But according to that book, without Essential Air Service the cities of Alliance, Hastings, Shadman, Columbus, Norfork, Sidney, McCook, and probably Carney would lose all of their air service. That is eight cities.

Only Grand Island, North Platte, and Scottsbluff in this class of cities, three cities, were projected to retain some of their service. So it is a pretty devastating scenario that we are dealing with.

Furthermore, all of those cities that I just mentioned are a considerable distance apart. This is not a matter of merely getting in the car and traveling 20 minutes or 25 minutes to an airport. I think you understand that. I did want to make that point.

I certainly see that, the Administration basically is against the subsidies for the Essential Air Service program, I would simply point out that that might indeed—and I use the term "might" advisedly; I think it is a short-sighted policy, because if we have further deterioration of the industrial base in rural America I am sure that is going to come home to haunt us in other types of government programs that we might be called upon to retrain, to have welfare programs, to assist those great cities.

And all of these that I have mentioned are cities that are doing an excellent job of pulling themselves up by their bootstraps. But with the prospects for the agricultural economy, they know full well that unless they can attract some industry into those communities, they are likely to see a further decline in their economic base.

So sometimes we can consider subsidies, as we do in Amtrak and many other places, as really an investment in the future. And that is one of the things that I would suggest that we should continue to look at.

And thank you very much for your testimony.

The only last question I have is, if, Mr. Scocozza, the act that we have in front of us does become the law of the land, as I believe it will, we want to work with you on its the implementation. And I suspect that, other than the financial part of this Act and what it would cost, there probably is no basic opposition in the Administration to it.

Is that a fair statement?

Mr. SCOCOZZA. In terms of—there is an opposition in terms of in excess of the cost, Senator.

Senator EXON. There is a concern in what area?

Mr. SCOCOZZA. In excess of the cost, if I can just very quickly summarize in terms of the bills that we see. The concern we have is the definition of "essential." Right now it basically says——

Senator EXON. But that is based on cost, is it not? You see, my question was other than what the Administration believes to be unnecessary costs that might accrue to the government from this bill, you do not have any other basic objection to the concept of providing some kind of Essential Air Service to rural America?

Mr. SCOCOZZA. No. As an Administration, I guess as previous administrations and I would hope as future administrations, our

desire is always to make sure that every American has access to a good transportation system. But we do not want to see legislation that might interfere with the private sector of the market providing this and being prevented because of particular governmental programs.

The existing program we have now is there only because it says, if you had it in 1978 you have it for ten years. That kind of prevents a lot of free marketeers or private entrepreneurs to come in and design their own particular systems.

One of the keys that we have seen, if there is a continuation of the program, is that it is critical that carriers have the flexibility to put their programs together and come to the Department, the Essential Air Service Office, and make proposals, without requirements of certain types of aircraft or certain types of equipment.

If you have a 20-seat piece of aircraft, you may make more money in a non-EAS market. And we would hate to see having the stringent requirements that would prevent people from coming forward.

Senator EXON. Thank you very much.

Senator Danforth, do you have any questions?

Senator DANFORTH. I do not, Mr. Chairman.

Senator EXON. Thank you very much for coming, Mr. Scocozza. We appreciate your testimony.

[The statement follows:]

STATEMENT OF MATTHEW V. SCOCOZZA, ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Good morning, Mr. Chairman and members of the subcommittee. It is a pleasure to be here to day to discuss the section 419 small community air service program, commonly referred to as the Essential Air Service or EAS program. I would like to address two areas—first, the Department's position on ending the program, and second, the proposals before Congress to extend the program.

As you know, since 1985, the Department has continuously proposed in its annual budget requests that funding for the Essential Air Service Program be discontinued. Our recommendation to terminate airline subsidies was based on part on the need to reduce the Federal deficit and our general position that all nonessential spending should be eliminated. In addition, however, our position has been based in data and information on the costs and benefits of the service.

At the direction of Congress, we recently undertook an extensive study of the Essential Air Service Program, focusing on the demand for air transportation at small communities, the availability of alternative transportation, the probable impact of discontinuing the program, and the cost of providing service under the program. The study provides an in-depth and objective analysis of the benefits derived from the program and the costs associated with it. Based on that review, we maintain our position that the EAS program should be terminated.

I believe that a careful review of that report will convince you as well that there is not sufficient justification for continuing the service grantees and subsidies.

To substantiate this, I would like to highlight some of the significant information and findings in the report.

As background, let me begin with a brief summary of the current status of subsidized service. As of January 1, 1987, we were subsidizing service at 102 communities in the 49 States excluding Alaska. Based on a review of the levels of traffic at these communities, the amount of subsidy requested, the operating costs of the carriers providing service and the fares currently being charged, we have analyzed the prospects at each of these communities for continuation of air service in the absence of EAS subsidies. We conclude that 24 of the 102 subsidized communities outside Alaska would probably continue to receive air service if subsidies were discontinued and 70 would probably lose all service. The prospects at the remaining 8 are unclear. In Alaska, we were subsidizing service at 41 communities. We except that all

of those communities would continue to receive air service if the program is ended, although perhaps with fewer frequencies.

We then examined the benefits being derived from the subsidized service, the public need for service at these airports and the costs involved.

Overall, the number of travelers benefiting from the EAS subsidy program is extremely small. A total of approximately 850 explanements per day are generated at the 102 subsidized communities outside Alaska. This represents less than one one-hundredth of 1 percent of all traffic in the country. Obviously, traffic levels for the individual subsidized communities are also extremely low. 43 of the 70 communities that we estimate would lose all service enplane fewer than 5 passengers per day and 23 enplane between 6 and 10 passengers per day. Moreover, the prospects for any substantial increase in traffic are slim. The vast majority of these communities have very small population bases. Furthermore, most of them have never enplaned traffic levels sufficient to support air service on their own. The data indicate that approximately 20 enplanements per day are necessary to support air service. 53 of the subsidized communities enplaned fewer than 20 passengers per day in 1978, before deregulation.

In conjunction with this, with deregulation and the increase in the number of service and fare options that became available at larger communities, many travelers at small communities are choosing to travel by surface transportation to nearby, larger air service centers to enter the air transportation system rather than utilize their local service.

We examined the distances between the small communities and nearby airports that are receiving subsidy-free service. Many of the 70 communities at risk of losing their service are within reasonable driving distance to alternative air transportation centers that would continue to afford their travelers access to the national air transportation system. 17 subsidized communities are less than 50 miles from alternative air service. In many cases these communities are connected by interstate highway. Half of the 70 communities that would lose all service are less than 75 miles from other airports. Many of the remaining points are within 120 miles, or approximately 2 hours driving time to an air transportation center. Since most of these communities are located in rural, sparsely populated areas, distances of 120 miles do not pose a major obstacle. In fact, spokespersons at the EAS hearing held in Wolf Point, MT, one of the most isolated communities, indicated that they generally drive distances of 100 miles to neighboring communities.

The subsidy required to maintain air service at local airports for the limited number of passengers is excessive and cannot be justified. Although the overall level of subsidy—$25 million—may seem insignificant in the context of our Federal budget, the amount of subsidy required for each passenger is unreasonable. At 24 communities, the subsidy per passenger exceeds $100. For 6 of those communities, the subsidy per passenger exceeds $200. In one case, the subsidy per passenger exceeds $500. And that community is only 39 miles from a hub airport.

In addition, for 36 communities the subsidy being paid by the Federal Government is greater than the fare being paid by the passenger. For 19 communities, the subsidy per passenger is more than twice the fare. What is particularly disturbing is that many of the communities with the highest per passenger subsidy requirements are the ones that are closest to alternative air transportation centers.

In assessing the need for continuation of the program, it is necessary to consider the purpose of the program and whether or not the original goals have been met. At the time that the Airline Deregulation Act was passed, there was widespread concern that larger carriers would abondon their service at small communities and that the marketplace would not be able to respond to the needs of these communities on its own. During the 1960's and 1970's many of the small communities had come to be served with larger aircraft as the local service carriers had upgraded their fleets. The level of air service was no longer matched to the level of demand at many of these communities, and with the greater freedom to suspend service under deregulation, the larger carriers were expected to shed their smaller points. It was recognized that the airline industry, particularly the commuter industry which is best suited to serve smaller markets, was not prepared to assume the responsibility of serving all of these points. Thus, the EAS Program was designed to provide protection to small communities during the transition from a regulated to a deregulated air transportation system, affording a gradual transitional that would enable the commuter industry to expand to meet the service requirements of the numerous small communities.

This transition has been completed, and service at small communities is now far better matched to the demand. Commuter air carriers now provide the bulk of service at EAS communities. In fact, at 84 percent of the EAS communities, commuter

airlines are the only carriers providing service. During this transition period, the commuter industry has experienced considerable growth and development. In 1986, commuter carriers transported 28.3 million passengers compared to 11 million in 1978. Most important, the commuter industry is now prepared to meet the air service needs of communities in direct response to marketplace demand, without our intervention. Commuter carriers now operate in all sections of the country, and they have a much larger and diversified fleet of aircraft. In addition, over the past couple years, many commuter air carriers have entered into service arrangements with major carriers at Hub Airports, affording better integration of service into the National Air Transportation System. Thus, the system is now capable of handling the air service needs of all communities.

In summary, the benefits from the program are extremely limited, the subsidy requirements are excessive for the numbers of passengers being accommodated and the system is now capable of responding to the demand for service without our intervention. Under these circumstances, we continue to believe that the Essential Air Service Program should be ended.

I would now like to turn to the proposals to extend the EAS program.

Five bills have been introduced in the Congress. These range from a simple extension of the existing program to establishment of a new program with enhanced service guarantees and inclusion of new communities. There are four major program areas that are addressed in these proposals—the eligibility of communities for coverage under the program, the level and type of service to be provided, the source of subsidy funding, and the contractual relationship between the carriers providing subsidized Essential Air Service and Department.

The Department has comments on each of these topics.

(1) ELIGIBILITY CRITERIA

As noted earlier, we are currently subsidizing air service at a number of communities that are within a reasonably short driving distance to alternative air transportation center, usually ones offering substantially higher levels of service and greater fare options. It is widely acknowledged that nonisolated communities with reasonable access to alternative air service should be eliminated from the program.

Two proposals under consideration would exclude points that are less than 35 miles from an alternative air center or 50 miles from a hub. These proposed isolation standards would have only minimal impact. The first standard would eliminate at most 6 communities from the program and the second one would eliminate eight communities. Both standards would force us to maintain subsidized service to communities where travelers are clearly choosing to drive to nearby hubs rather than utilize their local air service. Maintaining subsidy for such communities is both wasteful and futile. In brief, the isolation standard should be designed in a way that recognizes the trade-offs and comparative advantages to travelers of local air service versus surface transportation to alternative airports. The fact that many passengers are driving considerably greater distances to hub airports to enter the air transportation system suggests that 35 or 50 mile standards would be too low. In determining a more realistic standard, several facts should be kept in mind. First, many of the subsidized communities are on or near the interstate highway system and have high-speed access to alternative air transportation centers. Second, most of the subsidized communities are located in rural, relatively sparsely populated areas rather than congested metropolitan areas. Third, many of the residents of these communities are accustomed to driving fairly significant distances to obtain services such as public transportation. Fourth, at some points, efficient providers of for-hire surface transportation are available and we should not use public funds to take business away from them.

Another eligibility proposal is to extend the program to new communities. Such an approach is contradictory to the overall approach of deregulation and the position that communities should rely on the marketplace to meet their air service needs. The program was designed to maintain service during a transition period, not as a developmental program.

(2) THE LEVEL AND TYPE OF SERVICE TO BE PROVIDED

The draft bills propose various requirements with respect to minimum frequency, maximum number of stops, specific size and type of aircraft, timing of flights, average load factors, and types of hubs to which service must be provided. Some of these constitute significant changes from the service currently being provided under the EAS Program. Most of them will not significantly improve service and are not necessary to meet the needs of communities. Yet, these changes will entail considerably

greater subsidy requirements and, more importantly, may preclude the development of self-sufficient air service. Furthermore, some of them could cause present operational problems for carriers providing service.

For example, one proposal is to require that all EAS be provided with a minimum of 15-seat aircraft. Two round trips with 15-seat aircraft would provide a total of 30 inbound and outbound seats for a community. Since the vast majority of subsidized communities enplane fewer than 10 passengers per day, this provision could mandate operations with extremely low and uneconomic load factors, thereby increasing the subsidy need. We estimate that the subsidy cost of upgrading to 15-seat aircraft would be $3.5 million annually.

Another proposal would require that EAS be operated only to medium or large hubs. A number of communities are currently receiving EAS to small hubs, and adjusting that service to medium or large hubs not only would be disruptive to the communities and carriers but also entail considerably more operating expense and subsidy. For example, the EAS communities in Montana currently receive service to Billings, a small hub. Under this proposal, we would have to secure service to Denver for them. In total, we estimate that this provision could increase subsidy by $7 million annually.

Similar effects would result from reducing the maximum number of allowed intermediate stops from 2 to 1, decreasing the maximum average load factor standard from 65 percent to 50 percent, requiring pressurized aircraft on flights operated over 8,000 feet, and requiring that flights be operated within limited specified time periods in the morning and afternoon, as is proposed in S.582. Some of these would impose considerable burdens on carriers, forcing them to acquire more aircraft and decrease their utilization of their fleet. These provisions could also increase operating costs and subsidies and preclude the development of unsubsidized service.

Our approach in administering the EAS Program has been to allow carriers providing EAS some operating flexibility, within reasonable limits that are designed to ensure that the service is usable to the traveling public. Our objective is to enable carriers to devise the most efficient service patterns that will have the best prospects of achieving self-sufficiency. Imposing narrow service requirements could be detrimental to accomplishing these goals and not be in the long-term best interests of the communities.

(3) FUNDING

There are several funding issues raised by the proposals to extend the program. Some of the draft bills proposed to finance the Essential Air Service Program from user fees available from the Airport and Airway Trust Fund. We strongly oppose tapping funds comprised of user fees to support this kind of commercial activity as an ill-advised precedent. In fact, the vast majority of users from whom those funds have been collected have not flown in subsidized markets; thus, the fees they have paid would be misapplied.

A major new element affecting the funding is the proposal for community sharing in subsidy costs for enhanced levels of service. The enhanced service proposal, which contemplates 50–50 sharing of subsidy by the communities and the Federal Government, would result in substantially higher subsidy costs for the Federal Government. Under these provisions, communities could request more frequencies or service with larger aircraft if they are willing to underwrite half of the additional subsidy costs. Without any certainty that the enhanced service will increase traffic, the costs of such proposals could be substantial. Furthermore, given the historical low levels of traffic at these communities, we are not optimistic that traffic will respond sufficiently to justify enhanced service. We presented more detailed analysis of these proposals in our recent study. To indicate the potential impact of this proposal, I would like to cite one example we examined. We prepared a forecast of the economic cost of providing service with 44-seat aircraft for Jamestown and Devils Lake, ND, two communities that are currently served with 19-seat aircraft and had indicated a desire for enhanced service with larger aircraft. In order to ultimately achieve self-sufficiency with 44-seat operations, traffic at the two communities would have to grow by 220 percent. That level of traffic is 50 percent more than the communities generated in 1976 when they received jet service from Northwest. Thus, the cost of providing the service could be exorbitant while offering little prospect for becoming profitable.

S. 876 proposes to establish a $30,000,000 annual authorization for the EAS program for each fiscal year. The current annual subsidy requirement is approximately $26–27 million. As we have indicated above if the service requirements are expanded, as proposed under most of the proposed bills, the total subsidy cost for the pro-

gram would increase, in some cases substantially, requiring higher funding than contemplated by the proposed bill.

(4) CONTRACTUAL RELATIONSHIP WITH SUBSIDIZED CARRIERS

Under some proposals, the subsidy rates would be established under contracts between the department and air carriers. Furthermore, as proposed in S.582, it has been suggested that EAS subsidy awards be covered by the Contracts Disputess Act of 1978. We do not see any reason to impose the extensive contract rules on the program that would result from this action. Contracts that are paid with appropriated funds are subject to a great many conditions. Making our relations with EAS carriers contractual will significantly add to the formality, complexity and cost—both the carriers' and ours—of operating the program. We do not see the program benefits, and thus we do not favor imposing contract rules on the EAS Program. The purpose of including the subsidy awards under the Contract Dispute Act appears to be to afford air carriers recourse to an outside party to resolve disagreements on subsidy levels. This concern could be addressed by other administrative procedures without imposing all of the requirements of the Contracts Disputes Act.

In summary, we do not believe that continuation of the program is justified given the costs involved and the limited public benefits being derived. Furthermore, we find that the proposals offered to extend and enlarge the program would be wasteful and counteproductive. Instead, we should now rely on the marketplace to meet the needs of all communities as was contemplated at the time the Airline Deregulation Act was enacted. Communities have been afforded sufficient opportunity to prepare for the final transition to a totally deregulated air transportation system and Federal operating subsidies should be discontinued.

Senator EXON. And our chairman has returned and I will turn this back to him. But first I will call the next panel: Mr. Robert Anderson, chairman of the National Committee of Cities and States for Airline Service; Ms. Patris Eidsness, member of the South Dakota Aeronautics Commission; Mr. Donald Overman, mayor of Scottsbluff, NE; Mr. Alan Morris, city manager of Liberal, KS; and Mr. Gerry Fink, manager of the Raleigh Memorial Airport, Beckley, WV.

Will you please come forward.

Senator Ford [presiding]. We will ask the lady to go first and then we will follow to her left, Mr. Overman, Mr. Anderson, Mr. Morris, and Mr. Fink. You all might proceed with your statements.

I do not know what the procedure has been up to now in my absence. But if you want to highlight your statements, you may do that. Your total statements will be included in the record. So if you want to, please proceed.

Ms. EIDSNESS. Thank you for that courtesy, Mr. Ford, but I would like to defer to Mr. Anderson, if it is all right with you, to begin our presentation today.

Senator FORD. Well, we find out who the leader is now, then. Mr. Anderson, you may proceed upon acquiescence of the lady.

STATEMENTS OF ROBERT ANDERSON, CHAIRMAN, NATIONAL COMMITTEE OF CITIES AND STATES FOR AIRLINE SERVICE; PATRICIA EIDSNESS, MEMBER, SOUTH DAKOTA AERONAUTICS COMMISSION; DONALD OVERMAN, MAYOR, SCOTTSBLUFF, NB; ALAN MORRIS, CITY MANAGER, LIBERAL, KS; AND JERRY FINK, AIRPORT MANAGER, RALEIGH MEMORIAL AIRPORT, BECKLEY, WV

Mr. ANDERSON. Thank you, Chairman Ford, and members of the committee.

I appear on the behalf of the cities and states that are deeply concerned about the possible termination of the Essential Air Serv-

ice program in October of 1988. I appear as a person who has had a firsthand experience with the EAS program as a former Mayor of International Falls, Minnesota, and currently as the chairman of the International Falls-Koochiching County Airport Commission.

Joining me with the panel today are representatives of the National Committee of Cities and States for Airline Service, who will give you a personal insight into the EAS program as it has affected their cities.

Allow me just to take a moment and I would like to introduce a few of the persons who are here in the audience today, and I would ask them to stand and be recognized by this distinguished committee:

Raymond Rought, who is the director of aeronautics for the State of Minnesota; Ken Hoeper, who is director of economic development and aviation research for the State of Minnesota;

Bill Bassett, who is here, city manager of Mankato; Bob Peterson, who is from the metropolitan airports commission of Minneapolis-St. Paul;

Marvin Campbell, who is the chairman of the Brainerd-Crow Wing County Airport Commission in Brainerd, MN;

Bob Wurst, who is the city attorney of Thief River Falls, MN;

Lowell Helgerson, who is the airport manager at the esteemed city of Rochester, MN;

Jim Nitchals, the city manager of Fergus Falls, MN;

Bill Adams and Steve Rufer of Fergus Falls, MN, who are joining us today.

Senator FORD. May I ask a question? Who is running the store back in Minnesota?

Mr. ANDERSON. We have a few people still out there, Mr. Chairman.

Also with us today is: Jack Daniels, who is the state coordinator from Williston, ND;

Jerry Olson, who is the airport manager at Williston;

Dean Gretschman, who is with the South Dakota DOT in Pierre;

And Ken Koehn, who is the airport manager at Devils Lake;

And Jim Kuchar, who is also from Devils Lake, ND.

We also have, from Sidney, Montana, a travel agent, Marilyn Johnson who has joined with us.

They are here, Mr. Chairman, because they are concerned about what has happened to their airline service in the last eight and a half years. We have lost service, we have seen ticket prices rise, as both Senator Pressler and Senator Rockefeller have stated here this morning.

The national committee was formed last year because of this very concern. The concern that brought that national committee into being is that the vast majority of our cities now receiving subsidy supported air service under section 419 will lose that service if this program is allowed to die.

You just heard Mr. Scocozza state that 70 cities would possibly lose service if the program is allowed to expire. Well, I can just tell you that I would bet any money that I have that that 70 cities number is very, very small, and that it could be a great many more than that, that they have probably understated that number.

Senator FORD. By how much? What is the ballpark?

Mr. ANDERSON. I would guess that we are talking close to all 97 that are presently subsidized.

Such losses of service would punish those communities unfairly and needlessly. The program should have been a means for helping these cities develop their true traffic potential. Instead, the program has been administered in a way that has discouraged traffic development and denied a fair opportunity to many of these points to show what they can do.

Essential Air Service has been defined by the CAB and now the DOT as the barest minimum of service. Often it is poorly timed, multiple stop service, involving very small aircraft.

Thirty-two of the 97 cities that are subsidized, not counting those in Alaska, are served with aircraft of less than 15 seats. This kind of service will inevitably discourage traffic, and in fact it has. The Essential Air Service program has driven away passengers.

The DOT has then further lowered the minimum service requirements. In turn, of course, this has driven away more potential traffic and led to further service reductions. The spiral has continued downward for a long time. Since the program began, over 130 cities have undergone redefinition.

I know Senator Pressler spoke of those that occurred in South Dakota and what happened when you lose service in a community and a new company comes in and starts it up. Many of the citizens do not know if they have service, first of all. Second, they do not know what time the plane is leaving, because these people are operating on a shoe string, on very, very low subsidies. So they cannot go out there and spend any money for advertising or marketing of the service that they have to offer.

Given this approach, it is no wonder that the traffic has dropped 54 percent nationally from 1978 to 1985 at cities that are served by the Essential Air Service Program, while the traffic overall in this country has grown by 39 percent. Nothing except poor service can explain the radical difference in those traffic figures.

The main thing that needs to be done at Essential Air Service points is to improve the service and thereby give a fair test of how much traffic these cities can generate and whether they can reduce or eliminate subsidy. That can be done by changing the existing law in several respects.

First, the DOT must be prohibited from fixing the level of service so low as to almost guarantee that passengers will stay away. Specific service minimums need to be put into the statute along the lines specified in S. 582.

Another change that is needed is to lay greater emphasis on the good service beyond hub cities. The program now focuses on service to the hub city, but more than three-fourths of the passengers that are generated at Essential Air Service points are going beyond the hub city.

Nothing is being done under the current program to encourage airlines that earn the beyond-hub revenues to help support that service that feed those flights.

Major airlines have generally found that revenue from smaller cities is very important. This is shown by the numerous marketing agreements listed in appendix B [1] of my testimony.

The purpose of these agreements is to increase small city feed traffic and to make sure that the large airlines capture that traffic for the longer haul flights. These agreements, especially those sharing a common designator code, have worked. As a recent DOT report shows, code-sharing agreements can cause dramatic fare reductions for connecting passengers and significant increases in-traffic at small cities.

There are several other changes that the existing law needs which we think would permit a fairer test of the small cities' traffic potential. For example, cities and states should be allowed to experiment with enhanced levels of service above the basic service level. Cities that want to experiment with such enhancements should be willing to help pay for it.

By the same token, we do not think that cost-sharing for the basic service makes sense. One reason for that is that the economic handicaps that limit airline traffic are the same that make it hard for a community to raise money to pay for service.

Also, in many of the States private subsidization or subsidization of private companies with tax funds is not allowed.

Let me turn to a second reason why the program should be revised and extended. There is no denying that smaller EAS points are unlikely to entirely eliminate their subsidy needs. The issue is one of basic transportation policy. We believe it would be totally inconsistent with long-established Federal policy to withdraw air service from such points in light of the relatively insignificant cost of assuring such service.

I need not remind this committee of the enormous financial commitment the Federal Government makes each year to our domestic transportation system. I refer not only to the interstate highway system, but to the massive sums that are being spent so that urban residents can get around faster within metropolitan areas.

Surely if it is worth spending large amounts so that urban travelers can save 10 or 20 minutes, it is worth the small cost of this program to save a half a day or a day of highway travel that would be required in the absence of air service at many of the points in rural America.

We recognize, of course, that our ideals must be tempered by our resources. But we see no need to apologize about the cost of this program. The ongoing cost is currently less than $25 million per year to provide air service to 137 cities and provide a safety net for many others.

The thousands and thousands of airline miles purchased by the Essential Air Service program cost less than the cost of four miles of a recently authorized four-lane interstate highway. The program is also dwarfed by the $640 million annually devoted to the Amtrak rail subsidies.

The cost must be also considered in relation to the amounts the Federal Government has been spending on airports at these same

[1] The appendix was not reproducible.

points. In the four fiscal years 1982 through 1985, airport expenditures at Essential Air Service points totaled over $74 million. That was a Federal commitment to build and maintain airports that goes hand in hand with the commitment to maintain air service.

As a final perspective, let me remind the committee that an Essential Air Service Program that encourages traffic will tend to reduce that subsidy cost. The DOT's estimate makes no allowance for the increased traffic that will be stimulated by the improved service, and the Department of Transportation makes no forecast of the increased traffic as a result of the common designator agreements that could be put into place. We believe that such increases will more than offset the cost of improved basic service.

We recognize that only time will establish how much additional traffic will be developed. The proof of the pudding will be in the eating, and we ask only that the Congress not throw away the pudding before we have had a chance to try it, especially since many of us in rural American have been on starvation rations since this program began back in 1978.

Senator FORD. Do each of the other witnesses wish to make a statement?

Mr. ANDERSON. A short statement, yes.

Senator FORD. A short statement. Let us hold them to five minutes. I would like to get the other panel on before lunch if we could. I am not trying to push you. I want you to get your message over.

Now, I do not want to get into any more trouble, Mr. Anderson. Will you designate who goes next.

Mr. ANDERSON. I would defer back to Ms. Eidsness. Thank you.

Ms. EIDSNESS. Thank you, Bob.

Thank you, Mr. Chairman, members of the committee. I am Pat Eidsness from Brookings, SD, and I appear this morning on behalf of Governor George Mickelson and the State of South Dakota.

Governor Mickelson strongly supports the extension of the air service program to insure the success of his efforts to foster economic development in South Dakota. Our Governor believes that a sound transportation system is crucial to an economic development program.

I bring to this hearing my perspective as the immediate past president of our Brookings Airport Board and as a member of the South Dakota Aeronautics Commission and our Governor's task force on Essential Air Service.

With me today is Mr. Dean Gretschmann from our State Department of Transportation. Dean and I both flew into Washington yesterday from separate EAS points.

The Essential Air Service Act has been critical in ensuring that South Dakotans have access to the nation's transportation system. Currently, seven cities in our state are designated EAS points and, according to Mr. Scocozza's green book, four of those—Mitchell, Yankton, Huron, and Brookings—which currently receive subsidized service would no longer receive that service without the EAS Program.

If this program is terminated, South Dakota will suffer potential loss of air service. Therefore, in South Dakota we are really excited

to see that Congress is increasingly recognizing the need to extend the program.

Every member of our state's delegation, Senators Pressler and Daschle and Congressman Johnson, each is cosponsoring legislation to extend this program. We mention that not only to applaud their leadership in this effort, but to draw to your attention the importance of this legislation to our state.

We also commend you, Mr. Chairman, for holding this hearing a full 15 months before the program is set to expire, because we feel that early legislative action to extend the program will allow cities and businesses and the airlines to effectively plan for their economic future.

I would like to describe for you this morning, Mr. Chairman, some examples of how important scheduled air service is to a small community in rural America. In my home town of Brookings, a town of 16,000 in eastern South Dakota and a subsidized EAS point, we have morning and evening flights daily to one hub, Minneapolis.

The 3M Co. has a medical products division in Brookings and, according to plant manager Jack Yankovich, scheduled airline service was an important factor in choosing the Brookings location. The number of passengers that 3M flies is not overly impressive. They fly approximately 20 passengers a week on our commuter airline.

But the numbers of dollars and jobs that 3M generates into the Brookings economy are very impressive—650 jobs and over $14 million in payroll. Without scheduled airline service, 3M probably would not have located in Brookings, nor would many of the new businesses and industries locating in our Brookings or in our South Dakota cities.

It is no accident that five of the newest industries in Brookings have their corporate headquarters in Minneapolis, our designated hub and the only city to which we have scheduled air service. According to the station agent at Mesaba Airlines in Brookings, of all the outbound passengers boarding in Brookings in April of 1987, 78.8 percent were business men and women.

For reasons such as this, many businesses, including those that hire hundreds of people, have said to our governor's office that they would not have located in or expanded in, or even stayed in cities like Brookings, Huron, and Mitchell but for the avaialbility of air service.

These other South Dakota cities have circumstances similar to that of 3M in Brookings. From Huron, a subsidized EAS point in central South Dakota, Mr. William Tucker, president of the Greater Huron Development Corp., requests the continuation of the Essential Air Service for his community. He says:

> Probably our point is best illustrated by the experience we have with the meat packing industry, which represents something on the order of 600 jobs in Huron. The local airport has been a strategic factor in tieing the packing business in Huron to major markets and activities outside our area.
>
> Our geographic isolation in the heart of the food production country makes this facility absolutely essential to our economic well-being.

Mr. Bill Ross, city manager for the city of Yankton, another EAS subsidized point in southeastern South Dakota, provided specific

examples from his city. I will not go into those. I will ask that they be submitted with my written testimony.

But of particular importance was Mr. Ross' statement to me that he is present at virtually every hosting of an industrial prospect looking to locate in Yankton. Nine times out of ten, he said, one of the first questions, if not the first question, they ask is, what kind of airline connections does Yankton have? Where do you fly and how often?

Since air service is a vital part of the economic development equation, it follows that the loss of air service for a small community would have disastrous effects on our efforts to strengthen and revitalize that local economy. It is not surprising, then, that the importance of air service to economic vitality is widely recognized in small communities.

In a recent election in Brookings, the voters decided by a three to one margin to contribute to airport improvements. If you are looking for hard proof that air service is important to those cities, Mr. Chairman, I think it is there in that vote.

How many times can officials go to the voters on an issue that is going to cost them money and get a three to one yes vote?

The February Department of Transportation report, the green book that we have here, infers that there is no conclusive evidence that economic development benefits are derived from scheduled air service. However, that report did not identify any person alleging that there is no such link.

Also, the body of that report did not mention what was noted in appendix U, that a 1983 study done for the Pennsylvania Department of Transportation showed that a majority of Pennsylvania's major employers considered location near an airport to be essential or important.

Now, we have not seen that Pennsylvania study, but we consider its conclusions as characterized by the U.S. DOT to be consistent with our findings that businesses must be near reliable air service.

South Dakota is working aggressively to meet the changing needs of our economy. We need to provide jobs in town for the increasing number of people leaving the farm. On both the local and the state level, we are working to attract new business and industry, to expand our economic base.

However, from Governor Mickelson on down we are convinced that we may need the EAS program or some variation of it to succeed. Air service is our vital link to the national and global economy. We know that rural America holds many attractions for foreign and national investment, but only where air service gives us accessibility.

And as Senator Daschle mentioned earlier today, South Dakota has no other form of transportation. And in our global economy, business and industry only know one form of transportation.

By continuing this Essential Air Service program, you are ensuring equality of economic opportunity for the small communities who in turn should continue to see traffic growth as they enjoy economic growth.

For all of these reasons, it is very important to the state of South Dakota that we extend the Essential Air Service program, and we

look forward to working with members of this committee and others in the Congress to achieve that end.

And I thank you for allowing me to appear today.

[The statement follows:]

STATEMENT OF PATRICIA EIDSNESS, MEMBER, SOUTH DAKOTA AERONAUTICS COMMISSION

Good morning, I am Pat Eidsness from Brookings, South Dakota, and I appear today on behalf of Governor George S. Mickelson and the State of South Dakota to support extension of the Federal Essential Air Service Program. Governor Mickelson strongly supports the continuation of the EAS program to insure the continued success of his efforts to foster ecomomic development in South Dakota. Our governor believes that a sound transportation system is essential to an economic development program.

I bring to this hearing my perspective as past president of the Brookings Airport Board, as a general aviation pilot, and as a member of both the South Dakota Aeronautics Commission and the Governor's Task Force on Essential Air Service. With me this morning is Mr. Dean Gretschmann from our state Department of Transportation. Mr. Gretschmann and I flew into Washington yesterday from separate EAS designated airports. The Essential Air Service Act has been critical in ensuring that South Dakota has access to the nation's transportation system. Currently seven cities in our state are designated EAS points, with four of them—Brookings, Huron, Mitchell and Yankton—receiving subsidized service. According to the United States Department of Transportation's Report to Congress on Subsidized Air Service Under the Essential Air Service Program dated February 1987, service to these four subsidized points mentioned above "would probably be discontinued" without an EAS subsidy. If the EAS Program is terminated, South Dakota will suffer potential loss of air service with an adverse effect on the economic development in these communities.

We consider ensuring the availability of reasonable air service to those communities an integral part of our state's effort to revitalize its economy. And we believe that extending the EAS Program is necessary to provide that air service.

In South Dakota we are excited to see that Congress is increasingly recognizing the need to extend the EAS Program. Every member of our state's delegation—Senators Pressler and Daschle and Congressman Johnson—is cosponsoring legislation to extend the program. We not only applaud this leadership from our delegation but we draw it to your attention today to show you the strength of South Dakota's interest in this legislation.

We also commend you, Mr. Chairman, for holding this hearing a full 15 months before the EAS Program is set to expire. We feel that early legislative action to extend this program will allow cities, businesses and airlines to effectively plan for their economic futures.

On the other hand, delay of legislative action to extend the EAS program would cause uncertainty and adversely affect economic development efforts. Thus we have been pleased to learn of the growing interest in the Congress to enact an EAS extension as part of the Airport and Airway reauthorization legislation, as that legislation will certainly be enacted this year.

Mr. Chairman, I would like to describe for you today some real world examples of the importance of scheduled air service to a small city in rural America. In my home town of Brookings, a town of 16,000 in eastern South Dakota and a subsidized EAS point, we have mornIng and evening flights daily to one hub—Minneapolis. The 3M Company has a medical products division in Brookings and, according to 3M plant manager Jack Yankovich, scheduled air service to Minneapolis was an important factor in choosing the Brookings location.

The number of passengers that 3M flies is not overly impressive. They fly approximately 20 passengers a week on our commuter airline. The numbers are very impressive, however, when you look at the jobs and the dollars that 3M generates into the Brookings economy—650 jobs and over $14 million in payroll. 3M probably would not have located in Brookings without scheduled air service, nor would many of the new businesses and industries locating in our major cities.

It is no accident that five of the newest industries in Brookings have their corporate headquarters in Minneapolis, our designated hub and the only city to which we have scheduled air service. According to the station agent for Mesaba Airlines in Brookings, of all the outbound passengers boarding in Brookings in April of 1987, 78.8 percent were business people. Equal in importance to the scheduled air passen-

ger service is the air freight service rural America receives. Our small manufacturers, producers and distributors rely heavily on that hub city for parts and supplies.

For reasons such as these, many businesses, including some with hundreds of employees, have told the Governor's office that they would not have located in, or expanded in, or stayed in Yankton, Mitchell, or Huron, or other EAS cities, but for the availability of air service. This is particularly true for companies which choose to base sales staff at their home office, even though these salesmen must go on the road frequently. Without air service, South Dakota cities could not attract or retain those businesses.

Other South Dakota EAS cities have circumstances similar to that of 3M in Brookings.

From Huron, a subsidized EAS point in central South Dakota, Mr. William Tucker, president of the Greater Huron Development Corporation, requests the continuation of the Essential Air Service Program for his community. He states "Probably our point is best illustrated by the experience we have had in the past and are currently having with the meat packing industry . . . (which) represents something on the order of 600 jobs and a very large investment. The local airport has been a strategic factor in tying the packing business in Huron to major markets and activities outside our area. It is absolutely essential that we have this air service in order to maintain and attract economic development in our community. Our geographic isolation in the heart of the food production country makes this facility absolutely essential to our economic well being."

Mr. Bill Ross, city manager for the city of Yankton, another subsidized EAS point in southern South Dakota, provided specific examples from his community showing the importance of air service especially for business growth. Of particular interest was Mr. Ross's statement to me that he is present at virtually every hosting of an industrial prospect looking to locate in Yankton. Nine times out of ten, he said, one of the first, if not the first question they ask is what kind of airline connections Yankton has . . . where do they fly, and how often?"

Mr. Marty Kiousis, President of M-Tron Industries which employs 100 people, states that "air service is important to M-Tron in our ability to get our customers and employees to and from our Yankton facility. The renewal of the EAS program is extremely important to us in our business growth because it will allow the community to continue to develop its air service connections and to work on expanding air service connections into additional markets that would allow a greater utilization of the service by our business. The renewal of the program, a thorough review of the routing and scheduling and an improved local promotional program will allow us to bring more of our customers to Yankton thereby improving our ability to market our products."

Mr. Don Anderson, General Manager of Portec-Kolberg, Inc. which employs 300 people, has indicated that "Continued air service and in fact the improvement of air service in Yankton is most important to us. With our various facilities and corporate headquarters located in Chicago, air service is a must. The continuation and renewal of the Essential Air Service program for Portec-Kolberg, Inc. of Yankton is important for expansions, like the one we just completed which added 150 persons to our work force and to future expansions which may even add more people."

While I have been talking about factors affecting location decisions of individual businesses, we must remember that these individual decisions help establish trends, particularly in small communities. Once a business comes in, it is more likely that another will come in, and once one goes, it is more than likely that others will go. Since air service is a vital part of the economic development equation, it follows that it is a factor in economic trends in small cities. We feel that the loss of air service in a small town will have a disastrous effect on efforts to revive and strengthen the local and state economy.

It is not surprising, then, that the importance of air service to economic vitality is recognized widely in small cities. In a recent election in Brookings, the voters decided by a 3 to 1 margin to contribute to airport improvement. Mr. Chairman, if you are looking for hard proof that air service is important to rural cities, I think it is there in that vote. How many times can officials go to the voters on an issue that is going to cost them money and get a 3-to-1 yes vote?

I would also like to state that the number of passengers is not in and of itself the only indicator of the need for scheduled air service. Business travelers will use local air service, even though it may be more expensive, due to the value of their time. Discretionary travelers, such as a family on vacation, may be more likely to travel to another airport to obtain better fares since time is not as critical to them. This situation may tend to keep passenger numbers down in some cases and will not reflect the true need for air service to the community. South Dakota and other rural

states believe that more emphasis should be placed on the economic necessity of air service when determining which communities receive essential air service. We believe that the approaches which have been advanced in Congress to extend and modify the program commendably recognize the economic necessity of the program.

The February, 1987 U.S. Department of Transportation report infers that there is no conclusive evidence that economic development benefits are derived from scheduled air service. However, that report did not identify any person alleging that there is no such link. Also, the body of that report did not mention what was noted in Appendix U, that a 1983 study done for the Pennsylvania Department of Transportation showed that a majority of Pennsylvania's major employers considered location near a commercial airport to be essential or important.

We haven't seen that Pennsylvania study. However, we consider its conclusions as characterized by the U.S. DOT to be consistent with our own experience, that businesses must be near reliable air service.

South Dakota is working aggressively to meet the changing needs of our economy. We need to provide jobs in town for increasing numbers of people leaving the farm. The effects of the economic crisis on the farm are all too real in our state. In response, our state legislature this year took the extraordinary step of enacting a temporary one percent increase in the sales tax, the proceeds of which are reserved solely for funding economic development.

On both the local and the state levels, South Dakota is working to attract new business and industry to expand its economic base. However, from Governor Mickelson on down we are convinced that we need the EAS program or some variation of it to succeed. Air service is our vital link to the national and to the global economy. We know that rural America presents many attractions for national and foreign investment, but only where air service is available. Further, air service and the EAS program are particularly important to our state due to the absence of public transportation alternatives. In South Dakota there is no rail passenger service and limited, decreasing bus service.

Implicit in our support for an extension of the EAS program in our view that the program is well worth its cost. The cost of this program is very small when compared to other federal programs. It is small when compared to even individual projects funded under other programs. Not only is its total cost modest by federal standard, but that small infusion reaches many people and can help literally scores of cities across our nation. According to the DOT study, areas with weak economic conditions, such as agricutlure, oil and energy, continue to have depressed air traffic. Other areas of the country where recent economic growth has been occurring have seen increases in traffic during the past year.

South Dakota is working toward and achieving some of that economic growth. In fact, we are finally seeing the first positive turnaround in passenger boardings in South Dakota since the early years of deregulation. Even after years of unreliable service, the public still responds to good service. People in small towns are very supportive, even protective, of their local businesses, and they will not drive down the highway for something that they can get at home.

By continuing an Essential Air Service Program, you are ensuring equality of economic opportunity for those small communities, who in turn should continue to see traffic growth as they enjoy economic growth. The amount of subsidy required in South Dakota is decreasing as the usage increases. Given more time to fully develop, we believe that these markets will achieve self-sufficiency.

From our experience we have developed some specific views as to how the EAS program could be improved when it is extended. We support the concept that Essential Air Service should be more specifically defined so that guaranteed service will be at a level which creates passenger acceptance rather than passenger resistance. Certain areas of the proposed legislation such as requiring service for six rather than five days a week and the use of aircraft with at least an effective 15 seats (i.e., *and* their luggage) would be appropriate reform. One area which the Governor's Task Force took exception to was the use of a one hour driving time from a hub city as part of the definition of an eligible EAS point. Our Task Force felt that this would be better described as a distance of specific mileage which would be less confusing to the general public in light of the various types of roads, terrain and weather conditions. In that regard we would certainly support a 35 mile criteria which we understand is being actively considered in Congress.

Requirements such as these would help instill business confidence in our small cities and help put them on that patch toward self-supporting reasonable levels of air service. By contrast, under the present EAS program, air service in South Dakota has changed constantly. In fact, we call it volatile and unstable in South

Dakota. In Appendix "A" attached to my statement is a chronology of changes in South Dakota air service since the passage of deregulation.

As reflected in that Appendix, it has been hard to know what is going to happen with air service in our state. In the first years under deregulation, air service between North and South Dakota was terminated and other service diminished. No commuter airlines came to the state to attempt to fill those voids until late 1981. At that time, Northern Airlines was selected by the CAB to provide service to the cities of Brookings, Huron and Mitchell. Northern was basically a "paper" airline. It had no previous experience and did not own any aircraft. This airline provided poor service for less than 90 days. Those communities were then without service for nearly 60 days until service was started by Mesaba Airlines with B–99 aircraft. Those craft were not readily accessible to the handicapped and were unable to carry a full load of passengers with baggage. There were delays in luggage reaching destinations. Those experiences created passenger resistance to commuter-type aircraft.

Additional problems stemmed from the shunting of older aircraft from big city routes to South Dakota service. As a result, South Dakota passengers became more familiar than most with cabin heaters that did not work. An unduly high number of flights were cancelled due to maintenance needs of aircraft. These experiences also contributed to the lack of passenger acceptance of new service. Not surprisingly, enplanement levels went down.

Mesaba Airlines has begun to turn that situation around through its recent deployment of larger, pressurized aircraft which can even accommodate the luggage. This craft appears to have better passenger acceptance. Traffic is beginning to increase at points served by this craft and should continue to do so. Mesaba has chosen to use this larger craft on its own, however. Its use is not guaranteed by the EAS program. We think this shows that reasonable equipment must be deployed to put communities on the path to self-sustaining air service.

In short, the experience of our state is that it is an exercise in false economy to fund a program to ensure service, but at a leval which erodes rather than builds passenger acceptance. We hope that you take this experience into account in drafting new legislation.

For all of these reasons, it is very important to South Dakota that the Essential Air Service Program be extended. We look forward to working with this committee and others in the Congress to achieve that end. I thank you sincerely for giving me the opportunity to appear before you today.

Mr. OVERMAN. Chairman Ford, I am Don Overman, mayor of the city of Scottsbluff, representing the State of Nebraska as well as the City of Gering, Nebraska.

Certainly we are here to urge the Congress to support the continuation of the Essential Air Service Act past its demise, proposed demise in October 1988. And certainly I am pleased to be able to be here and to work with my good friend, Senator Jim Exon, who I have worked with from the time he was governor and now as Senator. It is nice to be with you, Senator Jim.

As Senator Exon, of course, knows, the state of Nebraska is pretty long. The cities of Scottsbluff and Gering are 400 miles from the state capital, 450 miles from our center of commerce in Omaha, Nebraska. We are the largest town within 150 miles in any direction and we are 14,000 people. But we are the center of business for that part of eastern Wyoming and western Nebraska.

Assistant Secretary of DOT Matt Scocozza stated at a House hearing in May that there is no correlation between Essential Air Service and economic development. At that time I took issue with that statement. The DOT report to Congress that said the same thing.

Those of us who are working out in the field, those of us on the firing lines as mayors and county commissioners and such, we know how important Essential Air Service and scheduled air service is to economic development of all of our cities across the country.

And it is very important, in the opinion of this elected mayor, that Essential Air Service be continued in direct relation to economic development.

In January of 1985, I was invited by Governor Kerrey of Nebraska to come to Lincoln, Nebraska, and attend his state of the state address. I was traveling on Frontier Commuter Airlines, our Essential Air Service carrier. I had the good fortune to land in North Platte the first stop. We were to have two stops before we got to Lincoln.

And we sat on the ground for some 40 minutes and noticed that both the pilots got off the airplane, and we could see them in talking on the phone in North Platte. Eventually they came back out to tell us that the airline had decided they were going to fold up their tent and that we could either get off in North Platte or fly back to Denver with them.

Since most of us, 19 of us, were planning to go East to Lincoln and Omaha, we did not have a whole lot of choice. We either got off the airplane and we took a bus if they had one, we hitchhiked, or we chartered an airplane.

And that probably is a pretty good description of how important Essential Air Service is, when they can stop the flight in the middle without going on to the end of it and taking you to your destination and leave you off in the middle of the state of Nebraska.

It was a somewhat traumatic experience, and I point it out merely to stress the importance of essential air service. Certainly most of us have lost train service, most of us have lost bus service, and hundreds of cities, of course, are without airline service. And there will be 100 more or more if we do not continue Essential Air Service past October of 1988.

Certainly, as Senator Exon has already so well stated, the state of Nebraska has the second largest number of Essential Air Service cities. We have 11, and there is no question whatsoever that eight of those cities will lose scheduled airline service if this does not continue past 1988.

And we are not going to give in to the DOT report that says that it might not be the other three as well, because that is strictly their opinion as to how many cities will lose it and I think they are going to report it as good as they can, and I would merely point that out.

At one point back before—well, actually in 1982, we had 36,000 people board airplanes in Scottsbluff, and last year we had 20,200 board airplanes. And there has to be only one or two reasons for that: it is fares and service. We think that Essential Air Service is important at a fair price, and at good scheduled times, in order to give us the proper service we need.

I might say that in March of this year I attended the National League of Cities convention here in Washington, which I spoke before. First of all I heard a discussion by the head of the FAA about the billions of dollars that we have in the airline trust funds and how important it is to have fine airports in all of our cities.

I followed him on the platform and spoke to the national committee and pointed out the need for continuation of Essential Air Service to the small cities of America. And I stated that it was

indeed important to have upgraded airports, but to many small cities that have good airports they are not worth a damn if we do not have any airlines to go in and to serve the people in those towns.

And of course, that is what this discussion is all about. The larger cities of America receive billions of dollars for their mass transit, the highways receive billions, the airports receive billions, Amtrak gets $600 to $700 million a year, and the small cities of America are having to fight like hell for a $25 million program that is a drop in the bucket and is so essential to the small towns of America.

During my presentation to the Aviation Subcommittee of the House in May, I stated that I had been told that that $25 million is a lot less than it costs to add one new station on the Washington Metro each year. Upon conclusion of my testimony, Congressman Lightfoot advised me:

"Mr. Overman, your comment about the subway station on the Metro, the Yuppie Express or whatever you call it, if my arithmetic is correct $25 million is about what we pour in that thing every 15 to 16 days, or it is around $400 million a year."

I want to say that we feel that equity requires that the citizens of smaller communities be given similar consideration as is given to those who reside in the metropolitan areas of our country. Essential Air Service is that equity for the small cities of America.

Certainly I urge your adoption of S. 582 and thank Senator Exon, Senator Ford, and the other Senators for listening to our testimony. And we would appreciate your help on this bill.

Thank you.

Mr. MORRIS. Mr. Chairman, members of the committee, as city manager of Liberal, Kansas since 1976, I am appearing on behalf of eight publicly elected officials of eight communities in Kansas. There has been a joint concern of these cities that commuter service will all but disappear in Kansas if the Essential Air Service Program is allowed to expire.

The primary thrust of our position is to stress the extreme importance of effective air service to the health of our economy. We have determined that continuation of a revised Essential Air Service Program is a regional priority which can only be dealt with and resolved through a cooperative and united effort.

Small communities are being victimized by high fares. These high fares are undoubtedly hindering business development in our areas as it is the business traveler who is particularly affected. It costs $358 roundtrip to fly from Liberal, Kansas to Kansas City. The fare is equally expensive to other destinations from Liberal; therefore, people are driving 166 miles to fly out of Amarillo, Texas rather than fly out of Liberal.

The issue of air service is not an abstract one. It clearly has a great deal to do with economic development. Let us look at Liberal. The trade area encompasses approximately 13,000 square miles, includes areas of southwest Kansas, Oklahoma and Texas Panhandles. The trade area population is between 75,000 and 100,000. Sufficiently distant from any large or medium-sized city, we are 325 miles from Denver, 166 miles from Amarillo, 254 miles from Okla-

homa City, 220 miles from Wichita, and 440 miles from Kansas City.

The city is extremely dependent upon air transportation to meet the demands of its citizens in terms of economic, cultural, social and recreational exposure.

Traffic at Liberal has declined every year since 1979, from 14,000 to 4,000. Although one may claim that the community has consistently received a high level of air service over this period, it is no secret that Frontier Airlines revised its schedules in the late 1970s and early 1980s to, in effect, deplete the need for air traffic in Liberal so it could get out of its commitment.

Then Air Midwest, after it replaced Frontier in mid-1981, came in with a much smaller aircraft and higher fares, negative factors for many, particularly business travelers and the older travelers.

In view of the drastic declines in passenger loadings, one has to conclude that Essential Air Service has worked against rural areas and not for rural areas. The declines in traffic are primarily not the result of a decrease in demand for air service but an increase in the cost of that air service and the lack of well-timed flights.

Congress has recently passed along a message to cities stating that local officials and not the Federal Government must take the lead in fashioning a conscious and aggressive local economic role. In order for cities to do so, there must be a connection between national and local economic policy. One point of such a connection would be a usable and logical essential air service program.

Mr. Chairman and members of the subcommittee, local economic development in our small cities and rural areas can be fully successful only if there is adequate air service. Congress should continue to provide an economic development policy and strategy which recognizes the special priority to these areas of well-timed reasonable-priced passenger air service.

We implore you to support a new and better Essential Air Service Program. Thank you.

[The statement follows:]

STATEMENT OF ALAN MORRIS, CITY MANAGER, LIBERAL, KANSAS

Thank you Mr. Chairman and members of the Committee. As City Manager of Liberal, Kansas since 1976, I am appearing on behalf of the public elected officials of the following cities in Kansas, long concerned about the possible termination of the Essential Air Service Program. Those Kansas cities cited are, Liberal, Dodge City, Garden City, Goodland, Great Bend, Hays, Hutchinson and Parsons/Independence/Coffeyville, Kansas and Lamar, Colorado. We are most pleased and feel fortunate to be represented here in Washington by Senator Kassebaum. There has been a joint concern of these cities, now receiving subsidy supported air service under Section 419 of the Federal Aviation Act, that commuter service will all but disappear in Kansas if the essential air service program is allowed to expire.

For a number of years now, the above communities have gotten together and reviewed individual problem areas and as a result have formed a working group to assist with the statewide analysis of common essential air service problems. We've always believed that a working group of this type would help establish a dialogue among the affected communities and air carriers. As a result, many solutions to our common problems which originally existed have been ironed out. The primary thrust of our position is to stress the extreme importance of effective air service to the health of our economy. Kansas is a large geographic area with many important small communities spread throughout the State. It is vital for the State that the air service system provide a means for direct transportation of people to and from the important economic centers. We have determined that continuation of a revised Essential Air Service program is a regional priority which can only be dealt with an resolved through a cooperative and united effort. The Essential Air Service Program must be continued. EAS is simply too important to the social and economic well-being of small cities to be allowed to be discontinued. Congress must ensure that outlying rural areas are provided with reasonable access to the national transportation system.

Small communities are being victimized by high fares. These high fares are undoubtedly hindering business development in our areas, its the business traveler who is particularly affected. It costs $358 round trip to fly from Liberal to Kansas City. The fare is equally expensive to other destinations from Liberal. Therefore, people are driving the 166 miles to the Amarillo, Texas airport rather than fly out of Liberal. The issue of air service is not an abstract one, it clearly has a great deal to do with the economic development of our region and unless Congress takes quick steps to continue the essential air service program, more jobs and job opportunities will be lost to communities which have better air service. Congress should immediately reauthorize the Essential Air Service Program. Without such a program and without adequate, predictable and long term funding, it will be difficult to keep our small communities viable economic spots in the country.

The concept for the program was good; the Essential Air Service Act was clearly designed to ensure that small communities have access to the nation's air transportation system as well as connection to community points of interest. The program could have been a means for helping smaller cities develop their true potential, perhaps to the point of achieving subsidy free status. Yet, look what has happened to Liberal, Kansas. The City is located in the southwest corner of Kansas about two miles from the Oklahoma border and sixty (60) miles east of the Colorado border. The trade area of Liberal encompasses some thirteen thousand (13,000) square miles and includes areas of southwest Kansas, the Oklahoma and Texas panhandles. The trade area's population is approximately seventy-five thousand (75,000). Sufficiently distant from any large or medium size city (325 miles from Denver, 166 miles from Amarillo, 254 miles from Oklahoma City, 220 miles from Wichita and 440 miles from Kansas City) the City of Liberal is extremely dependent upon air transportation to meet the demands of its citizenry in terms of economic, social, cultural and recreational exposure.

Traffic at Liberal/Guymon has declined every year since 1979, from 14,000 a year to 4,000. And although one may claim that the community has consistently received a high level of air service over this period, its no secret that Frontier Airlines revised its schedules in the late 70's and early 80's to in effect deplete the need for air traffic in Liberal so it could get out of its commitment. And then Air Midwest, after it replaced Frontier in mid 1981, came in with a much smaller aircraft and higher rates, a shock for many, particularly the older travellers. In view of the drastic declines in passenger loadings, one has to conclude that essential air service has worked against rural areas and not for rural areas. The declines in traffic are primarily not the result of a decrease in demand for air service, but an increase in costs of that air service and the lack of frequency of flights. Certainly one can also say that the decline has slipped because of the economy. Our economy normally based on such diversification as aircraft sales, agriculture, oil and gas, has admittedly slipped, but where is there more potential in the next few years as far as oil and gas, than Liberal, Kansas? There will be a need for increased air traffic. Oil companies such as Anadarko, Mobile, Panhandle Eastern and Cities Services, are not making the business trips that they use to. But with the forecast for higher gas prices coming on us, these business trips will become a necessity and one will find Liberal's air traffic drastically increasing. Therefore, one has to conclude if he knows anything at all about the local economy, that the declines in traffic are not the result of a decrease in demand for air service and that the current traffic levels do not accurately reflect the future demand for air service in Kansas communities.

Congress has recently passed a message on to cities stating that local officials and not the federal government must take the lead in fashioning a conscious and aggressive economic role for city government. In order to fashion a viable economic role, there must be a connection between national and local economic policy. Cities have a stake in the condition of the national economy. Local economic development in the nation's small and rural cities can be fully successful only if there is adequate air service.

A usable and logical Essential Air Service program is needed. The federal government should continue to provide an economic development policy and strategy which recognizes the special priority and persistent problems of lack of air service in small and rural cities.

We urge you to provide adequate support toward a new and better essential air service program.

Senator FORD. Thank you.

Mr. Fink.

Mr. FINK. Good morning, Mr. Chairman, Senator Rockefeller and members of the committee. I would like to start off with, first of all, I think we all know the intent of the original Essential Air Service Program in 1978 was meaningful, and all communities would like to have been self-sustaining within that 10-year limitation that we had. However, there were problems, number one being the economy; number two being poor service.

When we speak of poor service, we mean the types of aircraft, the scheduling, and one thing I consider is poor service along with the economy trying to grow in my hometown in West Virginia. We are diversifying into tourism. We have a large ski resort and whitewater rapids; yet with the type aircraft I get coming in there, the tourists cannot bring their skis or their backpacking with them due to the type of aircraft that we have coming in there. That is one problem that we have as far as poor service.

The economy is starting to pick up a little in our area. We anticipate a 400 bed mental health complex. Now, that is being located adjacent to our airport, and that was their first question also. That is the primary reason that they are moving into that area, because of the airport. Of course, they were hesitant. They know how unstable the Essential Air Service Program is at this time.

Another point that I would like to make is we have been talking about code-sharing or common designators. A case in point in my particular case in Beckley. In 1986 I was served by one independent commuter. Our ridership at that time was 563 per month.

Two months later we received a commuter into our airport who was a contractual airline with a bigger airline, a code-sharing airline. Within one year, our ridership has gone up to 1,741. That is primarily due to the fare structure, the better scheduling that the code-sharing airline can provide for the community.

Another point I would like to make is on the AIP funds. Since 1978 or since the EAS Program was started in 1978, I have received $1,059,000 to improve our airport there at Raleigh County. This is just since the EAS Program started, and it does not make any sense to me for the Federal Government to give me $1,059,000 to improve our airport and then turn right around and discontinue the program that gives us the service.

Another point I would like to make. In my particular situation in Beckley we are fortunate enough to have the National Mine Academy and the Regional Armed Forces Entrance Examining Station in my area. I have met with these two facilities, and we have figured it up that if we lose service in Beckley and have to transport the recruits to the next nearest airport to get them to their destinations, or for all of their students coming into the National Mine Academy from all over the country, it will cost approximately $300,000 more per year to do this if we lose our air service. That is Federal money also.

I do not think it makes any difference which pot it comes out of. It is just the point that it costs $300,000 more to take care of those two facilities alone if we lose our air service.

That is about all I have at this time, Mr. Chairman. I am open for questions, and I will try to answer them if I can. I appreciate the opportunity to appear before you.

Senator FORD. Thank you very much, Mr. Fink. I will not ask very many questions before I turn it over to my colleagues.

I guess, Mr. Anderson, I will direct my questions to you. If you would like to field them or give them to somebody else, that is alright.

You disturbed me just a little bit in your statement when you talked about airlines coming into these various and sundry essential air service communities without giving you a schedule. You stated they did not know when they were going to fly, and that they were operating on a shoestring.

That concerns me as it relates to safety. If they are operating on a shoestring, do they have the proper mechanics, do they have the proper maintenance people to see that when I get on that airplane that it is safe.

You also know that the training of the pilots is somewhat less than other airlines, and so we are getting into a problem, I think, as it relates to safety, and if you have a crash in a small airline you are just as dead there as if you had come down in a big one.

So can you tell me about the safety and the maintenance in these commuter airlines out there operating on a shoestring?

Mr. ANDERSON. I think your concern, Senator, is a valid one, and I am going to ask Alan Morris from Liberal to tell you a little bit about the airline that is serving him and some of the problems he just recently had.

Mr. MORRIS. Recently FAA came down on Air Midwest, which is not abnormal as far as coming down on airlines, but it forced Air Midwest to cancel approximately half, their flights for the month and half their flights into Liberal, Kansas.

When you experience this, you——

Senator FORD. What did they come down on them for, Mr. Morris?

Mr. MORRIS. Lack of maintenance.

Senator FORD. Lack of maintenance. What about training of pilots? Was that involved?

Mr. MORRIS. No, that was not an issue.

Senator FORD. So the commuter that was serving Liberal was cited by FAA for lack of maintenance?

Mr. MORRIS. That is correct.

Senator FORD. That indicates something to me. Even with subsidy, these flights are not maintained, and they are not doing the kind of job they should. If we are spending $25 million annually in the next 10 years and the airlines are not making it and they have poor maintenance, I am not sure we are on the right track.

That is my concern, and I say that in trying to support Essential Air Service. I have designated airports and communities in my state. We are not involved and we get no money from it, but I am served by a 15-passenger Beech-99, and my community is 60,000. So this is somewhat bigger than most of the communities that are here today.

Mr. ANDERSON. That is true, Mr. Chairman. I think that also that is the concern that the traveling public has today in flying into many of these small communities.

What has happened the past eight and one-half years with the Essential Air Service Program and the CAB and DOT ratcheting down the cost of this program—back in 1978 I think the total subsidy cost was around $100 million, and now it is down to about $25 million.

We are just as concerned as Senator Kassebaum and each one of you in trying to get cities off subsidy. What we are proposing here is a developmental act, one that is going to develop air service to our communities and not one that is going to be a subsidy program forever.

Senator FORD. How can additional dollars be expected with the passenger decline? You are talking about the number of passengers declining.

I think Mr. Fink is pretty close to getting enplanement money under the new AIP bill. That has been at $40,000. The bill that I introduced in this committee which was good enough to pass out was at $18,000. We are trying to get down to where the smaller airports will receive some additional money as it relates to airport improvement, safety, communications, that sort of thing.

This bill, S. 582, as I understand it, on which Senator Exon has done a terrific job, but we are expanding it, and we are going to have more airports. It is like you have more volunteer fire departments in my state, and you only have so much to give them but as they expand everybody gets less. You pay something to the volunteer fire department for workmen's compensation and things of that nature for equipment. Even though it is larger and it expands, you have less to give to each community.

So let me ask you one quick question, and then I will turn it over to my colleagues. Do you all support the proposition that communities more than 60 miles away from hubs will receive the funding, and if you are inside that circle you will not receive any funding? Do all of you support that?

Mr. ANDERSON. I think we are looking at somewhere between 35 and 50 miles, Mr. Chairman, being a reasonable number of miles, because you get out into rural America and you start driving 50 miles, 60 miles to an airport, just from another town to another airport. Now maybe the two communities each have airports, but you have another 40 miles beyond that to get to the Essential Air Service point and not to the hub. You are talking about a 100 mile drive in total before you get there.

So when you talk about having airports 60 miles apart, you have to also figure the regional area that is being served by that airport and that those people are driving in 40 to 60 miles. So it starts to get to be a two- or three-hour drive just to get to the airport.

Senator FORD. It is probably a safer drive than the hour's drive or a little better from here to Dulles.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Jerry Fink, I would like you to tell me how you got here to Washington from Beckley, West Virginia.

Mr. FINK. I left Beckley on Piedmont Airlines and had to go south to Charlotte and then back north here to Washington.

Senator ROCKEFELLER. So you had to go south to get north?

Mr. FINK. Yes, sir.

Senator ROCKEFELLER. Why could you not go through Pittsburgh?

Mr. FINK. We lost our northern hub, Pittsburgh, under this Essential Air Service Program that we are now under.

Senator ROCKEFELLER. So your Essential Air Service to Pittsburgh, that link, that vital northern link has been discontinued?

Mr. FINK. That has been discontinued by the Department of Transportation. They have done a study according to their green book and came up with some numbers, but I do not really think those numbers were all that accurate. They were taking the numbers of passengers going directly to Pittsburgh on our independent commuter.

They were not taking into consideration the passengers doing just what I did, because it is cheaper going on the code-sharing commuter from Beckley to Charlotte back to Pittsburgh. It was cheaper to go that way than to go directly to Pittsburgh on our independent. So they were leaving out those numbers, I think.

Senator ROCKEFELLER. Did the airplane you traveled on to get up to Washington to testify before this committee have a lavatory?

Mr. FINK. No, sir.

Senator ROCKEFELLER. How many seats were on the airplane?

Mr. FINK. There were 19.

Senator ROCKEFELLER. Was it pressurized?

Mr. FINK. Yes, it was.

Senator ROCKEFELLER. Was it comfortable?

Mr. FINK. Yes, it was fairly comfortable.

Senator ROCKEFELLER. Did you get a snack?

Mr. FINK. No.

Senator FORD. What do you want, first class?

Senator ROCKEFELLER. You made a very interesting point, I thought, when you said that Beckley, which is part of southern West Virginia, is trying to diversify. Bluefield, which is also having its Essential Air Service Program eliminated under the Department of Transportation's plan, is also part of southern West Virginia, coal country, hard times, high unemployment, people out of work, with public and Federal officials trying to figure out a way to diversify the economy to give people a break.

Mr. FINK. Yes, sir.

Senator ROCKEFELLER. You mentioned tourism. That, in fact, is the fastest growing industry in the state. It has tripled in the last 10 years. You made the observation that people are not going to be able to get into Beckley because they cannot get their skis on the plane. It is going to cut down on the economic opportunity provided by tourism in southern West Virginia, not just the Beckley area but also in southern West Virginia. It will be extremely difficult to get to our state parks, our whitewater rafting and to our ski areas.

Do you see that happening?

Mr. FINK. Yes, sir. I already see it. I get numerous calls already from various travel agencies and groups inquiring about the type of transportation that we have coming in there in preparation of booking maybe a tour or with their equipment.

With the type of transportation we have coming in there, however, the travel agencies have to turn around and charter a bigger plane to satisfy the group getting in there, which is more expensive.

Senator ROCKEFELLER. You also make the point that there are Federal installations around Beckley and that if the Essential Air Service is cut out, which it now is for the northern connection to Pittsburgh, that many of them are going to have to go to other airports, which in fact is going to cost the Federal Government just in terms of one facility $300,000 more to transport them. That is Federal dollars out of Federal taxpayers' pockets.

Yet, the Essential Air Service to Beckley is $276,000. So the Federal Government kind of cuts off its nose thinking it is doing something, but in fact it is incurring a greater expense to the taxpayers by cutting out something which not only hurts industry, hurts tourism and hurts people, business and otherwise, who want to come into southern West Virginia to try and do something good.

Mr. FINK. That is correct.

Senator ROCKEFELLER. It does not make much sense, does it?

Mr. FINK. That was my point, sir. No, it does not. I cannot understand why the Federal Government would spend more money by eliminating the Essential Air Service and getting those students and recruits to their destinations.

Senator ROCKEFELLER. Is it your general impression that Beckley, Raleigh County, Bluefield and Mercer County over the years have tried and are trying vigorously to find ways to diversify their economy, understanding that coal cannot be the entire future and there has to be other ways of doing it?

Mr. FINK. That is true. It is happening right now with, like you say, the tourism and timber.

Senator ROCKEFELLER. For example, in Mercer County, Eltech, which is a defense-related electronics firm which located in Princeton, West Virginia in Mercer County is highly dependent upon the Bluefield Airport, which now the Department of Transportation proposes to eliminate service.

These are good faith efforts by the people of the state to diversify their economy, highly dependent upon Essential Air Service, now being eliminated. The total for the two airports comes up to about $500,000 a year.

Mr. FINK. Yes, sir.

Senator ROCKEFELLER. That does not make much sense, does it?

Mr. FINK. No, sir.

One other point. I have been contacted by major motel and hotel chains to come into our area due to the highway, but they are hesitant just for this reason right here, the EAS program. They are waiting and holding back to see what happens before they pursue the moving into our immediate area there in Raleigh County, the airport area, with their motels.

Senator ROCKEFELLER. In closing, Mr. Fink, I remember when airline deregulation passed, and United Airlines and Eastern Airlines and American Airlines just could not get out of each other's way fast enough to clear out of West Virginia. I mean Huntington, Charleston, Parkersburg, anywhere. They wanted out, and they wanted out fast.

That airline deregulation was a wonderful thing for New York. It was a wonderful thing for Washington, D.C., for Houston, Atlanta, Los Angeles, San Francisco and many other places but a terrible thing for West Virginia.

I remember that. That is not Essential Air Service. That is fundamental commercial airlines. The only hope we had left for our rural communities other than Huntington, Charleston and Parkersburg, for Beckley, Bluefield, Elkins, Morgantown, Clarksburg and others was Essential Air Service, half of which is now proposed to be cut out by the Department of Transportation in a total nationwide program which costs, at the most, $30 million, which is what we have been told here they spend every three or four weeks on the Metro system in Washington, D.C. to get Federal workers to work.

That is not quite fair to West Virginia, is it?

Mr. FINK. No, sir. I do not think it is. I think when we talk about essential, it is our survival as far as the economic future goes there in southern West Virginia, in my opinion.

Senator ROCKEFELLER. I thank the Chairman.

Senator FORD. Senator Exon?

Senator EXON. Mr. Chairman, thank you very much. I want to thank all the witnesses for their excellent testimony in support of this bill.

I have just one basic question because I think this is going to come up during our debate and continuing discussion and, hopefully, a conference with the House of Representatives on this bill that I think we can get passed. I will address this question basically to Mayor Overman and then to Mr. Morris, because you both touched on what I think is a fundamental concern.

I would just like to say that Mayor Overman is here not only representing his city of Scottsbluff where he serves as mayor but also the mayors of the other communities and, indeed, as the Vice Chairman of the National Committee on Cities and States for Airline Service.

So all of you represent a very broad view, and we appreciate your taking the time to come here.

With respect to this matter of declining enplanement in your areas, I would like to have you each give us, and particularly Mayor Overman and Mr. Morris, what you think is the main reason for the decline. Now there are more than one, but maybe the first, second or third most important reasons for the decline. I suspect it is a combination of reasons.

As Mayor Overman knows, I was to be in his area a week ago for the big annual Oregon Trail Days Festival. I could not make it because we were in session here, and I missed the last connection that I could make. The only way I could have possibly gotten there was to spend $1,500 to $2,000 to fly to Nebraska and then fly out in a chartered airplane.

I thought it was interesting to note that, had I been able to make that trip, it would have cost me more to fly from Omaha, Nebraska to the Scottsbluff Airport than it did to fly from Washington, D.C. to Omaha.

That disparity in air fare has to be an unfair disparity, I say. It has to be one of the main reasons that we are losing traffic, be-

cause with the tours that are being promoted today and with the attractive air fares from San Francisco to New York City, they can travel that distance even much cheaper than I can travel from here halfway across the country to Omaha, Nebraska.

I assume that what I think is a disparity in air costs certainly has to be one of the major problems that we have with the reduction of enplanement in your area and something which we have to overcome.

Is that true, Mayor Overman?

Mr. OVERMAN. That is a good assumption, Senator. If we are to fly from Scottsbluff to Omaha and go by way of Denver, it is $450. Now, that is 450 land miles if we drive. It is probably 350 air miles.

Now, we do have an Essential Air Service carrier, GP Express, that does go across Nebraska that I have to say the DOT was kind enough to give us in March of this year with the help of our Congressional delegation, and we do now have that ability to go east.

If for some reason you do not want to fly on a Beech 99 and you want to take a Dash 7 to Denver with Continental Express, you are going to pay $450. I have had a good number of discussions with Continental Express about an interline agreement and the fact that they promised it to us when they came onboard two years ago as our Essential Air Service carrier at that time. Of course, they asked to be let out of that last year.

I cannot help but throw in one additional piece of information. We talked about the small cost of essential air service, $25 million. It was brought to my attention that we here in the Capital have just spent $34 million to upgrade the elevators in the buildings in Washington, D.C.

Now I think that is important, and the Metro is important. But essential air service is essential to literally hundreds of small communities across America. And it goes back to what I said a while ago, equity demands that we have essential air service in relation to what is being spent on all the other forms of transportation across the country.

The other answer to your question about why enplanements are down, ours from 36,000 to 20,000, not only the cost but the type of aircraft, small airplanes, not comfortable, no bathroom, Senator, no luncheons, at poor times, perhaps not meeting the banks of flights in the major hub cities. Just continuing to ratchet down the service. And that is because of the Department of Transportation and their desire to get rid of the program.

Senator EXON. It is not unlike, is it, Mayor, the experience that we went through in, particularly in rural America, but also all across America when many years ago a regulated railroad industry obviously set about the discouragement of passenger travel on railroads, and they got the job done, to the detriment of certainly rural America. Thank you.

Mr. Morris, I was impressed with your stats on the dramatic decline in enplanements in your area. Do you have anything to add to what Mayor Overman said?

I mean, I think we have to be in a position on the floor of the Senate in debate on this bill, and also in the conference committee, to make the point that it is not because people in your area or in any of the other areas do not want to use airline service.

But it is a combination of a whole series of things, including extremely high fares, compared with the rest of the country, and I suppose in addition there too a lack of reasonable service at reasonable times that can make reasonable connections into hub airports.

Mr. MORRIS. Absolutely. Business travelers in particular and new companies that are looking into the area will simply not look at a community or use a service a second time if the airline does not offer well-timed, reasonable priced, and adequate air service. They just will not come back.

Senator EXON [presiding]. Thank you very much. Senator Pressler.

Senator PRESSLER. Thank you. Many of the questions I wanted to cover have been covered. Let me say that I was momentarily amused by the story of the group going to the Governor of Nebraska's inauguration and having the plane literally turn around.

That sounds like a humorous story, but it is tragic. Indeed I have had things like that happen to me. Senators travel back to their home states a lot.

But once in Florida I was flying on a commuter airline, and I had a ticket, and my wife and I went to the counter, and things looked very neat and clean. I though this must be a very efficient airline.

But they had gone out of business that morning. Fortunately, we had somebody drive us a couple of hours. But the point is, there was not anybody there to explain it. There was not any obligation on the part of anybody to have found us another ride or car, or even to advise us what became of these people? The sign is down and they are gone.

In your case they told you, you can either fly back to Denver with us or stay here. They just dumped you. This deregulation business has gone a bit too far. That is not the way people should be treated.

I just cannot say how proud I am of myself for opposing airline deregulation, although to no avail. But stories like that happen, and they probably would not happen if there were more people involved or if there was some media that would cover it in a metropolitan area.

That is the way people are treated today by these airlines. And your story, you may have told it in good spirits, and in good humor, because you are a well-humored fellow.

But I am sure it was not funny at the moment, and it would not have been very funny if you did not have the resources to get yourself where you were going.

Senators and Congressmen travel a great deal. I always hate to take the expensive chartered plane, because we only have so much money to use a year, believe it or not. So I am well aware of the problems.

Ms. Eidsness, I am very proud of your testimony here. Tell us, what does the Governor's Commission on EAS do in South Dakota?

Ms. EIDSNESS. Well, our Governor appointed this task force, and we have met about five times. We have done some specific things.

The first was, of course, to work with our Congressional delegation to let them know what our concerns are. And what our needs are in South Dakota. And then we actually have reviewed all the

proposed legislation and had input on what changes we would like to see made in that, what we think would fit our needs in South Dakota.

And then further, we have just recently extended this Commission to actually work with the commuter airline, when we get this resolved, to find out how they can better serve the needs of the State of South Dakota.

And we have already begun that kind of a working relationship with them.

Senator PRESSLER. We have talked about the role of good air service as support for business and development, and I think we have covered that pretty well. You said the majority of people boarding were businessmen.

Brookings is a college town, your hometown, although you represent all the towns. Do you think if there were advertising and promotion and people knew they could count on service, that more college students and tourists and others would indeed use the airlines?

Ms. EIDSNESS. I am so glad you asked me that because I have been sitting here just itching to say something that we sort of missed.

We keep talking about the importance of business and industry, and which of course is vitally important. And our first problem right now is to strengthen the economy in South Dakota and in all of these rural states.

But what I see happening as a beneficial byproduct of doing that is if we can establish good air service with decent fares, possibly with these code-sharing connections. Pretty soon, instead of just seeing all of these businesswomen and men in the terminals, we are going to see traveling families right in there alongside it.

People in rural areas and in small communities, they are not only supportive of a local business, they are protective of it. And they are not going to drive down the highway to get something that they can get at home.

And I think we will see those terminals just swelling with people, if they have the reliable service, and we will get those numbers built back up again.

Senator PRESSLER. It was pointed out by the gentleman from the Department of Transportation that there had been very few boardings in one of my cities, and that is true. But in past years there have been many, when people knew that good service was available.

When you have service offered by two or three commuter airlines, and no effort to promote it, not even basic information, obviously people are not going to take it.

A lot of people need air transportation. They need to go to a funeral, or they need to visit someone who is sick, which you cannot really schedule in advance.

Tell us something about the rates in South Dakota. You may wish to submit this for the record.

I would like to get to this business of rates. Now, the captive travelers in some of these small towns pay very, very high rates.

I know that this is not the subject of this hearing. But if you could just briefly address it and then submit something later regarding those rates.

Ms. EIDSNESS. Yes, I can submit those numbers, specifically, for the record later.

But South Dakota's experience is the same as what we have heard from the other witnesses here today, that to fly within South Dakota, or even to fly just from Brookings to our hub of Minneapolis, is almost prohibitive.

And when a business traveler can do that, you also can do that when you are going beyond. We have a code-sharing agreement with Northwest so that out of Brookings our rates are coming down.

But if you have more than one person flying, a family, or a couple perhaps, then they will drive that distance to get the lower rates at a nearby airport.

Senator PRESSLER. Mr. Chairman, I thank you very much. I am very proud of your testimony, Ms. Eidsness. And we will have additional information to place in the record.

Senator EXON. Thank you. We will accept any additional information that Senator Pressler has for the record.

I want to thank this panel, and I also want to comment on the excellent story that mayor Overman told about going down to the inauguration of Governor Kerry and being bumped off the aircraft because they decided to end the service.

And mayor Overman has told that story on several occasions. I have heard it before. But it was on point here, mayor, and I congratulate you for it.

As upset as he was, because mayor Overman is not just a parochial mayor of a city on the extreme western border, right next to Wyoming, but he travels around the state as a good ambassador of good will for Nebraska as a whole.

Now having said that I just want the committee to know that if at sometime in the future we have a recurrence of this, and Mayor Overman is on his way to Lincoln for the inauguration of a Republican governor, he really will be upset.

Thank you very much for coming, and we are delighted to have you.

Mr. ANDERSON. Thank you, Senator Exon for your leadership on this matter, and Senator Pressler and Senator Rockefeller for staying here and hearing all of our testimony. Thank you.

Senator EXON. Thank you. We will call the next panel now. Mr. John Fredericksen, executive vice president of the Regional Airline Association, and Mr. Paul Bollinger, vice president of the American Association of Airport Executives.

Senator PRESSLER [presiding]. You may proceed. I am substituting for the Chairman for a moment while he is making a phone call.

STATEMENT OF JOHN S. FREDERICKSEN, EXECUTIVE VICE PRESIDENT, REGIONAL AIRLINE ASSOCIATION

Mr. FREDERICKSEN. Mr. Chairman, we are glad to be here today. We in the regional airline business are after all the people who are

going to be providing this service that we have been talking about this morning.

Since 1978, since this Act came into place, we have grown tremendously. And as I have provided in my written testimony, we now provide over 85 percent of the essential air service provided in this country. It is provided by the regional carriers, as we refer to ourselves. The commuters, the non-jet carriers.

We are assuming that this program will go ahead. And will be reauthorized next year. With that assumption, we would like to make some recommendations from the point of view of the people who are going to be providing the service.

One is that eligible points be limited to those outside a 50-mile range within a hub airport. Many of our members who operate a non-subsidized service feel that the essential air service program in effect amounts to a government subsidy of their competition.

At the busier airports, we can eliminate that by eliminating those points within 50 miles of a hub that is non-subsidized, and we can get to the point of essential air service, which is serving those rural areas which are a long ways away.

You know, I have heard a lot of discussion here this morning about how essential air service should be in the rural communities. I think it is important, though, to give the perspective of the airlines.

We feel that it is important that we be given the scheduling flexibility and the aircraft size flexibility to serve those communities economically. It is our experience that traffic is generated by two things, primarily. One, reliability of service. Two, frequency of service.

Now, reliability is simply a function of the airline and the airplanes. And that is our responsibility. Frequency, though, comes from two different things.

It comes from the size of the airplane being operated, because if you have a more expensive airplane you cannot operate it as often because you have to fill it up more often.

In a very small community, we simply cannot afford to operate 19-seat turbine airplanes and only put one or two people on them. If you do that, you are going to have to jack the subsidies up tremendously to be able to justify that.

Many of the essential air service communities now are served by nine-seat airplanes, two pilots, two engines, perfectly reliable airplanes. Those are the sort of airplanes that can come in and out of these airports five or six times a day, give the businessman and the traveling public the kind of service they want, and they can still afford to stay in business.

But if you have to buy a turbine engine airplane, which is the next size up, there is the nine-seat and the modern airplanes, the next size up is the 19-seat turbine equipment, you are talking serious additional money that you are going to have to spend.

And the only way that money is going to come from is passengers buying tickets. Or subsidies. One or the other.

Marketing agreements, we have heard a lot about code-sharing agreements here this morning. Most of our carriers, Senator, are involved in code-sharing agreements already.

We do not think, however, that we need a code-sharing requirement in this legislation, for a number of reasons. The code-sharing carriers already have significant advantages in marketing and in financial incentives they can offer, so that when they go in and bid on an air service contract, they have an incentive already.

We do not think that is necessary to discriminate against the smaller carriers, who may be just starting up who do not have a code-sharing agreement, but who can still initiate inter-line agreements with all the carriers at the hub airports and provide just every bit as good a service.

Compensation is, of course, the root of the issue here for many of our carriers. The problem comes down to, who is going to pay, or how are we going to be compensated, primarily for hold-in service?

As you are aware, that is when a carrier decides it is no longer economically feasible for him to operate at some airport, and they decide to leave. How are they going to get paid?

We would like to see a fully-allocated cost benefit system put in with new legislation, so that carriers are not afraid to enter into essential air service contracts.

Finally, Senator, we would like to see the law, when it is reauthorized, we expect it will be, the essential air service program, we would like to see it continued for only five years, to give a chance to look at the state of the industry and the state of the communities after five years and alter the system if it needs to at that time.

Thank you.

[The statement follows:]

STATEMENT OF JOHN S. FREDERICKSEN, EXECUTIVE VICE PRESIDENT, REGIONAL AIRLINE ASSOCIATION

Thank you, Mr Chairman, for the opportunity to present the views of the Regional Airline Association on the future of the Essential Air Service Program. We believe that changes in the structure and alignment of the regional airlines industry, which provides the bulk of EAS service, dictate a new approach to the program. For many of the large regional carriers, EAS is no longer important; they prefer operating in markets which do not require subsidy. For many smaller regional carriers, however, EAS remains a necessary ingredient to their ability to serve small communities.

REGIONAL AIRLINES HAVE MET THE NEEDS OF SMALL COMMUNITIES

Section 419 of the Airline Deregulation Act established a small community air service program, originally to be administered by the Civil aeronautics Board (CAB). The act defines the level of service that should be guaranteed to ensure that a community will have access to the national air transportation system. The program authorized the CAB to pay subsidies in cases where no carrier will provide the essential level of service without subsidy. The Airline Deregulation Act guaranteed that not a single community which was on a certificate in 1978 would lose all air service for 10 years.

In January 1987, regional airlines served 309 of the 316 points in the United States (excluding Alaska) eligible for the essential air service. Regional carriers served 84% (266) of those points exclusively, while serving jointly with a major or national carrier at 43 additional points. Those figures have changed dramatically since 1978, when regionals served exclusively only 35% of the total number of EAS points. Clearly, the dominant role in EAS has been assumed by regional carriers. (See attached charts showing state by state service, including guaranteed vs. actual service.)

As of October 1986, only 138 points were receiving Section 419 compensation with an average of $174,132 paid per point. Of those 138 points, 41 were in Alaska. (See attached chart showing compensated carriers, points served, and annual compensa-

tion.) Thus, the large majority of essential air service points are being served by regional carriers without compensation.

RECOMMENDATIONS

The EAS program, if it is to be continued beyond 1988, should be tailored to reflect the changing character of the industry providing the service.

RAA, on behalf of its member carriers, offers the following recommendations:

1. Eligible point

The definition of eligible point must be restricted enough to eliminate airports that are close enough to existing unsubsidized service to make Federal support unneeded and unfair. RAA suggests the following definition:

"Eligible point" means any airport in the United States which received subsidized air service pursuant to 40 U.S.C. 1389, or did not receive any scheduled air service of any kind, as of January 1, 1987; and which is more than 50 miles away from any other airport receiving more than 10 scheduled flights at least five days a week from one or more air carriers without subsidy of any kind."

The proposed definition might include some airports not already entitled to EAS subsidies. In those cases, RAA would support provisions such as those in S. 876 and S. 582 which would ensure that these additional communities who receive EAS service were committed to supporting the proposed service, by requiring that they pay a portion of the subsidy.

2. Scheduling

Limitations on the times of scheduled service should be minimal, and the localities should be granted flexibility to waive scheduling requirements if the needs of the community are met.

3 Marketing agreements

Preferences in the award of EAS contracts for "code-sharing" carriers are unnecessary and discriminatory against otherwise qualified independent carriers. Appropriate interline capability with major carriers at hub airports, and the ability to provide scheduled service so that passengers can connect with the major carrier service are appropriate criteria. Those carriers in code-sharing agreements with major carriers enjoy significant bidding advantages in an EAS competition without a statutory code-sharing requirement.

4. Aircraft

Statutory specification of aircraft size and type should not prohibit smaller or less sophisticated aircraft serving an EAS market where that service is appropriate, and the locality agrees. Service should always be provided with multiengine aircraft with two pilots. Frequency may suffer in some lighter markets with an inflexible 15 seat minimum requirement. We believe that DOT should confer with local citizens and businesses, as well as elected officials, when making these decisions.

5. Compensation

We are encouraged by language in the proposed legislation which provides for fully allocated actual cost compensation for hold-in service.

If a formal contract system is developed, it should bypass the cumbersome procedures of Federal procurement rules. An independent level of contract review, short of the Courts of Appeals, would be an attractive feature, but only if pursuing such an appeal was less costly than current procedures.

6. Replacement carriers

Determinations of replacement carriers should be expedited to reduce hold in time. DOT should send out requests for replacement bids and soon as the incumbent carrier serves notice on intent to terminate. Incumbent carriers should be released from service obligations if no replacement is found within 180 days.

7. Term of the act

The EAS program should not be renewed for a period longer than 5 years, so that its relevance to a deregulated industry can be reviewed and it can be amended if necessary.

We very much appreciate the opportunity to comment on this important legislation and would be happy to answer any questions that the panel may have.

STATEMENT OF PAUL BOLLINGER, VICE PRESIDENT, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Mr. BOLLINGER. Mr. Chairman, I am Paul Bollinger with the American Association of Airport Executives. Senator Pressler, we have many good members in South Dakota.

AAAE would like to first correct a misconception among some individuals that the essential air service program, a 10-year program is designed to terminate at the end of 10 years.

The essential air service program is simply a guaranteed period against exit, to accommodate the concerns of small communities about the transition from regulation to deregulation.

Section 102(a)(8), the declaration of policy, which continues in force indefinitely, makes clear our point, that the intent was not to sunset such a program in its entirety.

It states as being in the public interest "the maintenance of a comprehensive and convenient system of continuous scheduled air service for small communities and for isolated areas, with direct Federal assistance where appropriate."

The intent of the language on this issue could not be clearer. Nowhere in the sunset provisions of the 1978 Act, Title XVI, is EAS mentioned except to be transferred. The 10-year guarantee is contained in Section 419 and it is not the sunset.

The starting point on the debate about a post-1988 EAS program should be how to improve the program. The administration's suggested starting point of eliminating EAS is not consistent with the intent of the language of the law.

It sort of reminds you of the story of a poor country family, the good old Maloney family which had nine children, and Mrs. Maloney just finished having her tenth child, and the child was not doing too well, like a lot of her previous children, due to maybe the poor pre-natal care in the area.

They named the little boy Leviticus. The doctor came out to Mr. Maloney, he was sitting there with all of his kids running and screaming all over the hospital waiting room. Their beautiful little children.

The Doctor said, Mr. Maloney, and he said, yes, Doctor. Your wife is doing fine, but little Leviticus is not doing too well, and it looks like it would take major surgery to keep him alive.

Since you already have nine children, I just wanted to come in and ask you what you wanted me to do. Mr. Maloney rubbed his hands and just stood up and said, well, Doctor, if I shared your attitude how many children would I have today?

The Doctor shook his head, but understood, and went back in and did what had to be done. This is somewhat where we find outselves today. There are certain points that may never, ever be capable of providing the number of passengers that will justify profitable commercial air service, yet we don't want these communities to disappear.

These are the communities that we must indeed deem as essential. The other details of the program, which AAAE members support, would, (1) call for basic service funded under 419, that should be improved for communities receiving service under the program;

(2) The Secretary should be required to encourage marketing arrangements between carriers providing EAS service and major airlines; (3) Communities should be given the option of enhancing basic service by sharing costs with the Federal government on a 50–50 matching basis for those services provided above the basic level;

And, (4) airlines serving a community under notice and hold-in provisions should be fully compensated for their costs providing that service.

AAAE believes that this committee should combine further reasonable rule changes with funding commitments that are more appropriate than the recent levels provided for EAS. Given the proper rules and resources, many communities could be eliminated from the program because of their success in the marketplace rather than by administrative edict following an inadequate market test.

Thank you, Mr. Chairman. That concludes my comments.

[The statement follows:]

STATEMENT OF THE AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Mr. Chairman and members of the committee, I am Paul Bollinger, vice president of the American Association of Airport Executives. AAAE is a professional membership association which represents over 1400 men and women who administer more than 600 airports nationwide which enplane 99% of the passengers in the U.S. We also accredit airport executives to provide the individual with enhanced professional credentials. AAAE represents individuals from the largest to the smallest airports in the United States.

On behalf of our membership we appreciate the opportunity to present our views to the Committee on Essential Air Service.

First, we would like to correct a misconception among some individuals that the original intent of the 1988 EAS date was as a sunset of the entire subsidy program. On the contrary, the stated intent in 1978 was to provide a *guaranteed period against exit* to accommodate the concerns of small communities about the transition from regulation to deregulation. Section 102(a)(8), the declaration of policy which continues in force indefinitely, makes clear our point that the intent was not to sunset such a program in its entirety. It states as being in the public interest: "(8) The maintenance of a comprehensive and convenient system of continuous scheduled airline service for small communities and for isolated areas, with direct federal assistance where appropriate."

The language and intent on this issue could not be clearer. No where in the sunset provisions of the 1978 act, title XVI, is EAS mentioned except to be transferred. The 10 year guarantee is contained in section 419 and is not sunset.

The starting point of the debate about a post 1988 EAS program should be how to improve the program. The administration's suggested starting point of eliminating EAS is not consistent with the intent or language of the law.

Four years ago, nearly to the day, GAO reported to Congress that changes and improvements to the EAS program were needed and recommended. Conclusions of that study recommended in part that increased flexibility in the EAS program should be implemented. Among its conclusions it recommended: "Temporarily increase some subsidies to improve flight scheduling, services and promotion where this can help a community's air service market to where it will no longer require subsidies. . ."

Mr. Chairman, AAAE's position on continuation of EAS is consistent with the accurate historical view of congressional intent and with most of the proposed bills that have been introduced in the Congress to continue and revise the program. Airport executives recommend four basic points that should be included in legislation:

1. "Basic" service funded under section 419 should be improved for communities receiving service under the program.

2. In administration of a new program, the Secretary should be required to encourage marketing arrangements between carriers providing EAS service and major airlines.

3. Communities should be given the option of enhancing "basic" service by sharing costs with the Federal Government on a 50–50 matching formula for those services provided above the "basic" level.

4. Airlines serving a community under notice and hold-in provisions should be fully compensated for their costs of providing that service.

Mr. Chairman, in our view too little attention is paid to the fact that federal subsidy for local air service has dropped substantially from the days when 406 subsidies ran consistently in the $100 million range prior to deregulation. Few people recall that the Government used to subsidize carriers based on their "system need" with no right of the Government to require any reasonable standard for the service being subsidized. Fortunately it is hard to remember that the Federal Government used to pay Frontier Airlines a subsidy to serve Wolf Point, Montana at midnight and 5 a.m. Assuming that this was not a flight schedule designed for vampires, we doubt that the passengers of Wolf Point appreciated the result of that Federal subsidy. Clearly such a schedule did not ever fairly test a market. Today the examples are not as extreme because Congress made needed changes in the subsidy program. But many communities are still not getting their fair test, for while the Government has changed some of the subsidy rules for the better, it has simultaneously dropped the funding needed to provide subsidized service by two-thirds.

AAAE believes that this committee should combine further reasonable rule changes with funding commitments that are more appropriate than the recent levels provided for EAS. Given the proper rules and resources many communities can be eliminated from the program because of their success in the marketplace, rather than by an administrative edict following an inadequate market test.

AAAE appreciates the opportunity to express our views on the issue of essential air service, and Mr. Chairman we would be pleased to answer any questions you or the other members of the committee may have at this time.

Senator FORD [presiding]. I am sorry. We have had a little more going on than we can handle here this morning, seems like, and we have all been bouncing in and out trying to accommodate each other and to get this valuable testimony on the record.

Mr. Fredericksen, you have recommended against statutory limitations, I think, to the size of the aircraft that would be used. Yet I find that, a poor recommendation, particularly in my community, when you had a B–99, that is only 15 passengers.

But when you go out there and see a Baron or an Aztec, to take them from Orangeboro to Louisville, for instance, and you only have three or four passengers, they are somewhat reluctant to get on the airplane.

If you have a Navajo you might have a door down where they could walk up and carry five passengers. But they are unwilling to fly those type of aircraft. Are you pretty well set in concrete as to your opposition to statutory limitations of size and type?

Mr. FREDERICKSEN. Well, Senator, as I was explaining earlier, when you talk about 15 seats, you make a quantum jump in the type of airplanes that are available.

Fifteen seats and above requires turbine equipment, $3 million, $4 million, $5 million equipment to operate. Now below that, you have some of the types of equipment you are talking about.

Senator FORD. You are talking about how much the aircraft would cost?

Mr. FREDERICKSEN. Yes, sir.

Senator FORD. Well, the commuters that operate in my community are not paying $3 million for a B–99. In fact, you might get one from Nicaragua a lot cheaper, and I think that is what it looked like.

Now my friend, $3 million is a little stiff. I think you ought to go back to your NADA book for aircraft.

Mr. FREDERICKSEN. Nevertheless, the Beech 99, Senator, is a twin-turbine machine.

Senator FORD. That is correct.

Mr. FREDERICKSEN. And it is considerably more expensive than a, for example the Cessna 402s, which carry eight passengers, eight or nine passengers, and which can operate profitably with a load factor of four people.

You cannot do that with a Beech 99. Now you can operate a Cessna 402 into a market, and many of our essential air service carriers do this, three or four times a day, and provide people with reliable, frequent service.

And they find that they can generate more traffic doing that than they can operating the two flights with the Beech 99. You know, most of our carriers, Senator, you know, to be honest, operate turbine equipment now.

But we do not want to be in the position of squeezing people out of business, start-up carriers who are the type of people who want to offer service to the smaller communities that the essential air service is all about.

And I think it is a mistake. And I think if you talk to people like Exec Express, for example, in Oklahoma, has done very well starting up in communities where other commuters have left, because they cannot make a buck using turbine equipment. And they are doing very well with 402s because they are operating frequent, reliable service, and the people like them.

Senator FORD. Do you agree with the conclusion of the Department of Transportation, I think it is the Department of Transportation, that if the essential air service were to end that nearly 70 communities would lose their air service?

Mr. FREDERICKSEN. I surveyed our member carriers who conduct essential air service. Most of them agreed that they would drop their subsidized airports if the program failed.

Now that is not to say that other carriers, using smaller airplanes, like I just said, might not go in there and provide air service. But I would say that we do have to agree that there would be a substantial number of those points that would be dropped without essential air service subsidy.

Senator FORD. I have a real problem, I have seen significant interest in trying to take a critical look both at the industry itself and at Congress.

I think the industry has been at fault in some respects with the problems that we are faced with today. I think this administration and this Congress have not had the ability to override a presidential veto, as it relates to the expenditure of funds out of the trust fund.

Now that trust fund is being used to hold the deficit down. You have got $6 billion to $8 billion in the trust fund. You have paid for it. Every time you fly an airplane, that is 8 percent tax.

And I will guarantee you that there will be an effort to raise that. Well, you raise that and all you are going to do is increase the trust fund to offset the deficit. And I think that is wrong.

You pay that tax for a reason so that when you get on the airplane you can fly to the destination you want to safely, on time, and with your bags. That is the simple solution.

Now, if we expect the airport executives to accommodate the service around this country, we have to give them an opportunity, through that tax money and emplanement fees, to improve the system.

So I am finding myself becoming a little bit frustrated, because the money is there and the traveling public is paying for it, but its not being used. It is a little bit different here.

What we are talking about today does not come from the trust fund. The essential air service comes out of the general fund.

It worries me about you said earlier; that there are airlines which are running on a shoestring. What worries me is the maintenance, you know. You can shake your head. But let me tell you, my friend, I got a plaque for flying 300,000 commercial air miles in the year of 1956. So I have been flying a little bit.

I have flown in every kind of aircraft you can imagine and landed on every kind of airstrip you can imagine, including the one in eastern Kentucky in which, you fly right into shear rock. There is a cemetery right down below it.

They do not have to take you very far, you know, if you go down there. So I have been through it, I have been through it. When you land in eastern Kentucky, and we take off from there, you can see the top of the hills if the moon is bright.

Oh, I have done that. Do not think for a minute I have not. So I know about small airplanes, large airplanes, the maintenance and service, the trust of a pilot. Commuter airlines, you know, their degree of training is, I think it is either section 132, or 135.

If you look at that training, that is not quite the level of the major aircraft.

Mr. FREDERICKSEN. Senator, I am real happy you brought that up again, because I appreciate the chance whenever I can to straighten people out on the safety record of the commuter air service.

Senator FORD. Oh, I know about the safety record. I understand that very well. I understand the safety record of the airline industry across this country so far the last year and this year.

Mr. FREDERICKSEN. And is that not the bottom line?

Senator FORD. The bottom line is you do not let it get away from you.

Mr. FREDERICKSEN. That is right.

Senator FORD. And it is about to get away from us, and if we do not do something about it now then it will get away from us and we will have more accidents. The commuter airline service in my community, has had several accidents, but luckily no fatalities.

That is what you are looking at. Every time you land, if you walk away from it it is a good one, is it not?

So if you want to straighten me out, you go ahead. I am available.

Mr. FREDERICKSEN. No, sir, I do not mean to straighten you out. I would just like a chance to state on the record that the NTSB, as you know, the National Transportation Safety Board, keeps records of these accidents. Since deregulation the commuter industry accident record is six times better than it was in 1978. Every single year it has improved.

Now, a professor from Indiana University did a real nice analysis of our industry. He gave a talk about it at North Western University a couple of weeks ago. He studied about 20 commuter carriers.

Air Midwest was mentioned here. They are one of the top 20 commuter carriers. Their safety record is every bit as good as the major jet carriers in this country. It is exactly the same, you know, give or take one hundredth of a percent.

Senator FORD. I have no problem with the safety record. I know exactly what it is.

Senator Exon and I both have been governors, and the thing that worried me most is deaths on the highway. And I knew when we had a good year and we were able to reduce the deaths on the highway by extra work, extra state police, extra precautions, doing things that made the general public mad, but we saved their lives in doing it however, I knew that the next year was going to be bad because if you go up one or two or even three more you have had a percentage increase.

Now, you are getting better every year. At some point, one accident makes your record bad. I am trying to prevent that one.

And I think Mr. Burnett made a pretty good statement when he said we ought to run on cool instead of on hot. I think we are at the point of running on hot. We have got the money, if we would just go ahead and use it. But we are having a hard time.

So if you want to get help, you help us put the money out of the trust fund into the airline industry. Whatever we get at an airport out there helps the commuter.

Mr. FREDERICKSEN. That is right. We very much appreciate your efforts with that trust fund. That is extremely important.

Senator FORD. I will yield to my colleague, Senator Exon.

Senator EXON. Thank you, Mr. Chairman.

When I was listening to the discussion about safety and responsibility, I thought of the time, Senator Ford, during the time when you were Governor of Kentucky and I was Governor of Nebraska, I was a pilot for one day on a regional airline.

So I know something, too——

Senator FORD. Is that when they cancelled the flight?

Senator EXON. No, no, we did not cancel the flight. In fact, I will just take a moment of your time to tell you about it. I was on a fishing trip and we left Denver. Onboard was myself, a pilot, and an elderly lady who was flying for the first time, and a very young girl who was going up to serve on a dude ranch.

We took off, got out there in line with all the big airplanes at the Denver Airport. We had some problems, the pilot went back in, and I said: What is the matter? And he said: The radio went out.

He pulled back in. This was a regional carrier. He got out and he moved the bags around back there a little bit, and he said: Now it is all right; the antenna was shorted out. We took off, and got into one of those fierce thunderstorms. We had to land in Cheyenne and tied her down. I helped him tie her down.

I went into Cheyenne Airport. Someone recognized me there, called me Governor Exon, and we got back on the plane. I know nothing about flying, although I have flown all my life.

I think the most reassuring thing that I have ever heard in all my years of public service was when this little 84 year old lady

took my arm and said: It is so reassuring to have you sitting up there in the copilot's seat.

So you see, you can fool some of the people some of the time.

I just have one question, gentlemen. I was listening to the conversation between you and the chairman. I just wanted to give you an opportunity to give us an expression, both of you, Mr. Fredericksen and Mr. Bollinger. If you had the choice of accepting this piece of legislation as it is written or nothing as far as Essential Air Service after 1988 is concerned, would you be for this legislation?

I am trying to ask you, are you for it or against it, and what is your amount of devotion?

Mr. BOLLINGER. Our membership is strongly in favor of it, Senator. We see it in itself as an essential program to a national air transportation system. There is some fine tuning that has to be done and I think a lot of that is accomplished in this piece of legislation. You are to be commended for that.

Senator EXON. Thank you.

Mr. Fredericksen?

Mr. FREDERICKSEN. Senator, my answer is not so easy. We would support the bill if it was that or nothing. I have to tell you, though, that many of our larger carriers have communicated to me that they would like to see the Essential Air Service program dropped.

They do not fly Essential Air Service subsidy any more. They feel like it is a government subsidy of their smaller competitors and that is where they are coming from.

So I am not in a position to wholeheartedly support the bill. Yet I think as an Association representing both big and small, we would have to say we support it if that was what we had.

Senator EXON. The big airlines want the dog-eat-dog situation. It is pretty obvious that in the long run the airline deregulation is going to be excellent for the three, four, or five that survive, and then we will see fares go up once again.

So I can understand your point of view. And I suspect, Mr. Fredericksen, that if I were a major stockholder, a substantial owner in one of the big airlines, I probably would not be for this, either, because they want the "free enterprise system" to survive.

If it survives, it would be to the demise of many small communities, and I think they do not quite understand the overall total big picture. I am not being particularly critical of them. I guess every one comes at these things from their point of view.

Fortunately, we have elected people who are not run by the moneyed interests of this country, who want to believe in the free enterprise system. I am a product of the free enterprise system. What little I have is as an independent businessman.

I am not just somebody who has been a professional politician all my life. I came through the independent business route. It started in the basement of my home. I know something about the free enterprise system. But the free enterprise system basically is a jungle, where the strongest survive.

I am not saying that that is a bad system, but in America we have to recognize that we have to have some tempering of that system to take care of the have-nots if we look at it from a total standpoint of a total community, a total nation, a total transportation system. And that is what we are working toward.

I have no further questions. Thank you, Mr. Chairman.

Senator FORD. Do you all have anything in rebuttal?

I thought I would at least give you an opportunity to get back at us.

Well, it has been a good day, and I again apologize for those of us who have had to go back and forth while you were giving your testimony. We have been trying to work out a little agreement on the AIP bill and other things, the Essential Air Service amendment, and that has been part of our problem.

So I do thank you and look forward to accomplishing the end result here.

This hearing is adjourned.

[Whereupon, at 12:33 p.m., the subcommittee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. TIM JOHNSON, U.S. REPRESENTATIVE FROM SOUTH DAKOTA

Mr. Chairman, and members of the committee, I would like to affirm my support for a program that is essential to the economic life of the rural areas of the United States. I congratulate you, Mr. Chairman, for holding hearings on an issue of such importance.

Essential Air Service is well-named. If not for this program, many small cities in the State of South Dakota would most likely not have air transportation. Mass transit is practically unknown in rural areas like South Dakota. Rail passenger service is nonexistent; bus service is limited. Some form of air service is essential, and this program has provided that.

South Dakota's economy has been almost totally dependent on agriculture. The plight of the Ag economy is well-known, and as family farmers go bankrupt and leave their farms, small towns and cities are being pulled under with them. These small rural communities have been imaginative and resourceful in trying to attract new businesses. State and local governments are pursuing an aggressive course of economic development, promoting South Dakota's work force and quality of life, and voting for sales taxes and bond issues earmarked for economic development. But all of this will be for naught, if business people cannot fly in to these small cities. A major component of the ability to attract business is adequate transportation, as provided by the essential Air Service Program. If prospective businesses cannot easily travel to these towns, they go elsewhere.

If this program is allowed to expire, or if it is terminated prematurely, it will be terminating businesses, it will be terminating jobs, and it will be terminating the hopes of people in South Dakota who simply want to stay in their own part of the country and find a job. The need for this program is overwhelming. The loss of it would be devastating.

There are a number of bills in Congress that would address the continuation of essential air service. I support Senator James Exon's Bill, S. 582, the Small Community Air Service Improvement Act. I think this legislation would establish a basic service that would address the needs of the small communities at a reasonable cost to the Federal Government.

South Dakota has four small cities that would lose all air service, or at least have it severely curtailed, if essential air service is allowed to expire. Seven cities in all are designated E.A.S. points.

I thank you, Mr. Chairman, for the timeliness of these hearings, and I respectfully request that the subcommittee continue its recognition of the importance of the Essential Air Service Program.

STATEMENT BY THE COMMUNITY OF JAMESTOWN, ND

The Jamestown Municipal Airport Authority presents the following testimony in support of legislation for the continuation and renewal of the Essential Air Service Program:

The Jamestown Municipal Airport is located one and a half miles northeast of the city of Jamestown, North Dakota, a community of 16,000 people. By eastern standards, we are an isolated rural community, althought we service a trade area of approximately 80,000 people, including residents of nine other counties outside our own Stutsman County. Jamestown was the first community nationwide to hold deregulation hearings and be granted a CAB order for Essential Air Service.

Loss of trunk line jet service following deregulation left our local public extremely reluctant to accept smaller planes and lesser service. This resulted in an obvious erosion of demand for air service. Mesaba Airlines, our present air carrier, is the third commuter airline to serve Jamestown since 1979. Mesaba, serving Jamestown since November 1984, has steadily improved their general service to our traveling public, with adjusting schedules and upgrading aircraft. They are now flying the Metro III, offering two round trips daily between Jamestown and Minneapolis, a

non-stop distance of 300 miles. Mesaba is providing a stable and reliable service, and we are highly satisfied with them as our commuter airline.

Actually, it is Mesaba-Northwest Airlink providing direct connections nationwide and worldwide through our Minneapolis hub and offering the connection convenience of integrated ticketing, seat assignments, and baggage handling.

Existing enplanements out of Jamestown in 1985 totaled 3,865. Boarding in 1986 totaled 4,900, about a 25 percent increase, mainly due to the Metro III aircraft going on line during the year. Surveys and studies indicate a potential demand of 16,000 enplanements, an increase potentially of 11,000 enplanements per year.

From previous studies indicating the above potential demand, this community is certain that such a level of service could be met if an aircraft larger than the Metro III were in use. Mesaba Airlines (Northwest Airlink) does own and operate F27 aircraft in its system which are capable of hauling approximately 30 passengers. Since there is no provision for subsidy of such a size aircraft for this community, Mesaba Airlines cannot jeopardize its present subsidy contract by placing in use such a airplane in service to our community. We respectfully submit and endorse a demonstration plan whereby such a larger aircraft could be placed in the route serving Jamestown and subsidized for a one-year period. If this were to be proven to be a satisfactory solution, such service could continue, or, as an alternative plan, drop back to the subsidization of a Metro III in this service.

Jamestown has no alternate choice for air transportation. The only possibility available to our flying public is charter from the local fixed base operators. There is no public transportation available to the alternate airports, all of which are over a distance of 100 miles.

The EAS program is vital to our community. Loss of our air carrier, by retraction of subsidies, would have a totally disastrous effect for several reasons: (a) The economic growth of our trade area depends on air carrier service; (b) Manufacturing plants rely on air freight and air transportation; and (c) Discontinuing air service would thwart all attempts to attract industrial development—an industrial prospect would not consider a community without air service.

Loss of air service would increase unemployment and place a drastic economic burden on our community. Without an air carrier, the airport would become ineligible for AIP funding, with resultant further deterioration.

Our only solution is continuation of the Essential Air Service Program and renewal of the program for another ten years past 1988.

The Jamestown community—in fact, all of North Dakota—is suffering from a plunging farm economy. We cannot support subsidy for air carriers on a local or statewide basis. North Dakota's 1987 Legislature has cut services and raised taxes in order to alleviate the stat's financial crisis. There will be no support for subsidies forthcoming from the state in the foreseeable future.

The only viable solution to keeping Jamestown and other small communities linked to the rest of the nation is continued legislative support of the Essential Air Service Program.

Additionally, we must not use minimum enplanement standards to determine continuation of the EAS subsidy to a community such as Jamestown. It must be based on the distance to alternate airports offering air transportation and on the potential capacity of the community to sustain service in the future.

The Jamestown Municipal Airport Authority, on behalf of the concerned citizen of our community, respectfully submits that it is imperative not to interrupt our present service. Afford us the ability to become fully self-supporting.

STATEMENT OF JOHN RABENBERG, CHAIRMAN, MONTANA GOVERNOR'S ESSENTIAL AIR SERVICE TASK FORCE, WOLF POINT, MT

I am John Rabenberg, Chairman of the Montana Governor's Essential Air Service Task Force, from Wolf Point, MT, where we subsidize the United States, plus some foreign countries, with our cheap food.

In our sparsely populated area, we need some subsidized air service, for example, it is 326 road miles to our hub—210 air miles. The distances are great and the population few. The county in which I live is twice the size of Rhode Island and half the size of Massachusetts and has 1,600 people—yet we need air service. As our Nationa's fourth largest State in size, Montanans and visitors to the Big Sky country are faced with vast travel distances. This makes air travel a significant factor in Montana's economy. Feared reductions, and likely elimination, of airlines service to most of our eastern and northern communities will affect many elements of our economy.

I am here representing Gov. Ted Schwinden, Keith Colbo, Director of the Department of Commerce, and Michael D. Ferguson, Administrator of the Montana Aeronautics Division. We all have been every concerned over the air service issues facing Montana and have been acitivity involved in meetings with civic groups and the airlines. Governor Schwinden serves on the air service committee of the Western Governors' Association. The WGA is strongly committed "towards reauthorizing the EAS Program prior to its expiration in 1988, so States, communities, and airlines can effectively plan and program for the future." We have a great concern and interest in the entire air transportation system—the major airline as well as the commuter airline served route system, with the reduction, and in some cases totoal discontinuance, of surface transportation at several of our small cities, air transportation has become even more vital to the traveling public. Isolation, particularly during the winter, is a problem, and without this essential air service the results would be catastrophic in several ways.

In Montana, as in many other States, we are faced with adverse weather and extremely bad driving conditions in many areas. We do not have any other public transportation system to reach medical facilities and to receive parts and service from our major cities. Airlines are the most reliable and are essential.

Governor Schwinden has appointed an EAS Task Force comprised of an official representative from each of our eight EAS communities, and this task force has been activity involved for several years in addressing issues and problems related to their service. The air carrier providing services to these communities, Big Sky Airlines (now a Northwest airlink), although not a member of the task force, has taken an active role in these meetings. We feel that this dialogue has been quite successful in addressing and resolving many problems.

Our Montana EAS Task Force, along with a similar group from Minnesota, has most recently taken a lead and has been actively involved in pulling EAS communities throughout the United States—including Alaska—together in formulating post-1988 legislation to continue some form of subsidized EAS.

In this day and age, it is almost impossible for industries to locate where there is no air service. We need industries in Montana, so it is important that we continue our airline service.

We have three industries in the Wolf Point area. One of these industries has about 50 percent of the world market for the product they produce, without scheduled air service, it would be difficult to stay in Wolf Point, and they would probably move. This industry is "woods power grip." One of the other industries is one of the largest single employers in Montana, with 500 employees. It would also be difficult for them to operate there without air service. The third activity is oil. We have much activity; and yet, when the oil prices come back, we will have much more. They are very much hindered without air service.

We then have the businesses that desperately need scheduled air service. We are a great distance from any major town in Montana. When we have need to attend a meeting in the State, it is essential to travel by air. Without air service, it is at least two days for any meeting. If we have to go to our capitol, it is a three-day situation. With the present air service, it is a one-and-a-half day trip and much easier.

We also have the Sioux and Assiniboine Indian Tribes on the Fort Peck Reservation. They also have to do a great deal of traveling. They have to go to Billings to the BIA headquarters and to Washington, DC. Now, I have given you one area. We have eight communities with basically the same need—Sidney, Glendive, Miles City, Havre, Lewistown, Glasgow, Wolf Point, and West Yellowstone—all very remote points.

STATEMENT OF WILLIAM A. BASSETT, DIRECTOR, LOCAL AIRLINE SERVICE ACTION COMMITTEE

I am William A. Bassett, Director, Local Airline Service Action Committee [LASAC] and, as such, I am representing 12 Minnesota cities who are members of LASAC.

LASAC was formed in 1962 by cities served on a scheduled basis by local service airlines. Its purpose was and is to allow member cities to provide a unified response to scheduled air transportation issues that affect scheduled air transportation in their markets.

Three of our member cities (Mankato, Thief River Falls and Worthington) are served by an air carrier which receives essential air service payments for providing scheduled air transportation in those markets. Three (Fairmont, Chisholm/Hibbing and International Falls) are served by a single air carrier without subsidy and six

(Bemidji, Brainerd, Duluth, Minneapolis/St Paul, Rochester and Winona*) are served by more than one carrier on a non-subsidy basis. These cities have joined together to assure the continuation of a balanced air transportation system which would provide adequate level of service to small- and medium-sized cities.

LASAC cities receiving essential air service, along with a majority of the cities now receiving essential air service under Section 419 of the Federal Aviation Act will lose that service is the essential air service program is allowed to expire. The U.S. DOT stated in its report to Congress that 68 of the 97 subsidized points, excluding Alaska, will lose air service if the essential air service program is allowed to end. For many of these cities the impact of the loss of scheduled air service could be severe due to geography and the lack of other forms of scheduled public transportation.

Our experience with the current Essential Air Service Program is that it has promoted minimal air service in those cities requiring federal financial support, which has not helped to foster and promote usage in those markets. The service, as defined by the now defunct Civil Aeronautics Board and its successor, the U.S. DOT, is designed simply to maintain access to the scheduled air transportation system. It is characterized by poorly timed, multiple stop service involving very small 8 to 9 passenger aircraft. According to DOT, 32 of the 97 subsidized pointed outside of Alaska are served with aircraft of less than 15 passengers.

It has been our firsthand experience in my city, Mankato, Minnesota, that this type of service discourages traffic. For example, in 1978 Mankato enplaned 7,421 passengers. Service was terminated by North Central Airlines and replacement service was provided in a 15 passenger Beech-99. Enplanements declined to 1,492 in 1982 and to 1,353 in 1985. Again the U.S. DOT downsized the aircraft to a 9-passenger Beech Queenaire and enplanements started another tailspin dive. The 1986 annual enplanements at Mankato are down to 745. That is a 90% reduction in enplanements from 1978 to 1986 at Mankato. According to the DOT's report to Congress, Mankato, Minnesota, is not an isolated case, a majority of essential air service cities experienced a decline in enplanements between 1978 and 1985, which is contrary to national trends. The "Aviation Daily" of July 2, 1987, reports that, "since 1978 enplanements grew 52.3% nationally."

DOT in its blind pursuit of reducing payments to air carrier, by down-sizing aircraft beyond reasonable levels, and selecting replacement carriers, on a cost only basis, has given no consideration to the economic and social consequences of this policy. For example, at my own city, we were informed by our air carrier in 1967 that it would discontinue service unless a safer, modern airport was provided. Since 1979 the city, state and federal governments have invested $6.1 million in development of the Mankato Airport. Of that amount $3.3 million was federal funds and $2.9 was state and local money.

In addition, LASAC cities and the Minnesota Department of Transportation have attempted over the years to enhance the Essential Air Service Program through surveys of users and efforts to enlist the assistance of local travel agents in promoting ridership on the essential air service designated carriers. These efforts have little or no chance of success in the face of diminution of schedules, increasing fares and replacement of carriers all of which make it impossible to develop ridership in the affected essential air service markets due to the instability brought on by DOT's view that "the federal role is simply to maintain access" and that they "have not responsibility to stimulate or develop scheduled air service toward self-sufficiency."

Cities served by a single air carrier on an unsubsidized basis are currently protected under the current law from temporary disruptions of air service. Any new legislation needs to provide cities of all sizes with this type of protection. When scheduled air service is disrupted, even for a short time, it is doubly difficult to rebuild it. Therefore, we recommend that any new legislation contain provisions which would protect cities from temporary disruptions of air service due to termination by the single carrier serving a city.

National policy has been to meet transportation needs of the country, even if federal monies are required. The essential air service program is based on that type commitment. Without such a commitment by Congress, supporting the development and enhancement of air service to small- and medium-sized cities, these once thriving cities will be regulated to less than one third class status, forcing the continued migration of residents to large metropolitan areas for even the simplest economic opportunities. As a practical matter, all goods and service cannot and should not be produced in these metropolitan areas for a multitude of reasons.

LASAC urges the adoption of a new program which would provide for development of air service and not simply focus on cost cutting. It must provide for stable and reliable air service to enhance community development. We recommend a 10-

year program, which would establish a floor of basic service designed to encourage ridership and usage by taking advantage of the longhaul traffic generated in a market.

In summary, LASAC believes that it is in the national interest to maintain a balanced scheduled air transportation system which addresses the needs of cities of all sizes. Such a system is in the economic interest of the nation and the convenience and safety of its citizens. LASAC strongly urges this committee to provide for an improved scheduled air transportation program for small- and medium-sized cities as a part of the national air transportation system. The program should help to stimulate the development of self-sufficient air service where possible and provide support where needed. Any new legislation should enhance schedules and equipment, provide for public safety and foster competitive fares.

STATEMENT OF RAYMOND J. ROUGHT, DIRECTOR, OFFICE OF AERONAUTICS, DIVISION OF PROGRAM MANAGEMENT, MINNESOTA DEPARTMENT OF TRANSPORTATION

Chairman Ford and Aviation Subcommittee members, I am Raymond J. Rought, Director of the the Office of Aeronautics, Minnesota Department of Transportation and appearing on behalf of the State of Minnesota.

The State of Minnesota and our cities eligible for the Essential Air Service Program are concerned about the possible termination of that program before October 1988; and the need for a new post-1988 small community air service program.

The Minnesota Department of Transportation (Mn/DOT), under Minnesota statute, is the lead state agency on transportation matters and it is our concern that the scheduled public air transportation available at 12 Minnesota cities will be seriously affected if the essential air service program is terminated prior to October 1988.

Three Minnesota cities: Mankato, Thief River Falls and Worthington are receiving federally supported essential air service. Five are served by only one air carrier and the remainder are serviced by two or more. If the essential air service program is allowed to terminate prior to October 1988, two of the three cities receiving federally funded service will, in all probability, lose their access to the scheduled air transportation system. Those cities served by a single carrier, without the protective provisions of the essential air service program, face the possibility of temporary service disruptions, if the single carrier serving them should decide to terminate service.

Congressional intent seems clear. The Federal Aviation Act of 1958, Section 102 (a)(8), as amended, requires that consideration be given to "The maintenance of a comprehensive and convenient system of continuous scheduled interstate and overseas airline service for small communities and for isolated areas of the United States, with direct federal assistance where appropriate." It also seems evident that Congress recognized that small- and medium-sized cities air transportation needs and problems were different, in certain respects, from those faced by larger cities. In recognition of this, Congress included in the Airline Deregulation Act of 1978, provisions which allow for the review of the essential air service program after ten years, a process in which it is now engaged in.

Small cities, in more sparsely populated areas of my state and in other states, are just now feeling the impact of deregulation due to the action of federal agencies (CAB & DOT), the development of code-sharing or dual designation, mergers, and service terminations. We believe that time is needed to make the transition to self-sustaining air service, where possible, and we recognize that some cities may for reasons beyond their control never be self-sustaining.

The CAB and its successor, the U.S. DOT, has interpreted the Airline Deregulation Act of 1978 as a directive from Congress to reduce subsidy to air carriers and to maintain access to the scheduled air transportation system, which it has done. However, no consideration has been given by these agencies as to the economic and social costs of their action in achieving those objectives. In its zeal to cut costs, the DOT has made decisions that have placed small cities at a disadvantage in developing their traffic generating potential and reaching the goal of self-sufficiency. These agencies justified their actions saying "self-sufficiency must be regarded as a fortunate and desirable result of the program, but it is not its primary goal as defined by Congress."

In the interest of reducing payments to air carriers, DOT reduced the essential air service seat guarantees at points where enplanements were declining due to the type of service and equipment selected by DOT. The service proposals based on the U.S. DOT's reduced seat guarantee most often resulted in multiple stop service in

eight or nine passenger aircraft. In most cases this was done in the face of strong objections from the affected city(ies) and the state. Scheduled service of this type does not encourage ridership, it discourages it. The DOT acknowledges in its report to Congress on subsidized air service "that decreases in the size of equipment does have a downward effect on traffic."

The loss of ridership causes further deterioration of the system, which in turn, results in further reductions in the level of service, increases the cost per passenger, and provides a basis for justifying further service cuts. The sprial gets tighter and tighter, until service is essentially choked off, creating the appearance that scheduled air service is not needed due to the lack of usage.

When access to the scheduled air transportation system is limited, as stated, passengers are forced into private automobiles and small cities become less accessible via scheduled public transportation. Passenger rail service is available at only six access points in my state. Intercity passenger bus service is in the throes of deregulation and the bus lines are shifting service to larger cities. Scheduled air transportation is a logical and reasonable means of meeting the scheduled public transportation needs of persons living in areas where population and trade centers are widely dispersed. Just as the mass transit systems are a logical means for meeting the scheduled public transportation needs of the metropolitan areas.

Public interest requires that a comprehensive and convenient system of continuous scheduled interstate and overseas airline service be maintained. Such a system of air transportation is an essential ingredient in the economic well being of cities of all sizes. The interchange of passengers as well as goods and services between metropolitan centers and smaller cities is an important factor in maintaining and strengthening the economy of all concerned.

Historical passenger origin-destination data for Minnesota cities indicate that approximately 75% or more of the passengers generated in small cities are going to cities beyond the Minneapolis/St. Paul hub. The current Essential Air Service Program is not designed to take advantage of the revenues generated by longhaul passengers in small city markets, its emphasis is on shorthaul traffic. As a consequence, these markets are not properly marketed, unless the air carrier serving them have code-sharing or dual designator arragements with larger air carriers and access to the airline computerized reservations system. The air carriers without those operational capabilities may be losing potential customers and revenues as a result. When this happens everyone loses; air carriers, cities, passengers and taxpayers.

We recommend that any new program should encourage the development of the longhaul traffic generated in these markets to help reduce program costs.

A new small community air service program is needed which will foster ridership and usage in the affected communities. We think it should be a ten-year program. It should provide a level of basic service which would encourage ridership and usage. It should contain provisions which would take advantage of the long haul traffic generated in the small- and medium-sized markets. Cities and states should have a greater role in the air carrier selection process and if service above the defined basic service is desired local units of government should participate in the cost of those service enhancements. We also recommend that any new program contain provision which would prevent any city served by a single carrier from experiencing temporary service disruptions brought on by service terminations. There should be provisions to allow new cities to participate in the program if they were willing to share in the cost.

In summary, the current Essential Air Service Program should be funded for fiscal year 1988. A new small community air service program should be implemented. We recommend that it be for a 10-year period, it should include a level of basic service which would foster and promote usage, not discourage it. If cities desire service enhancements above the basic service, then they should share in the cost of the enhancements. The program should take advantage of the longhaul traffic generating capabilities of small cities and it should contain provisions for allowing new cities to participate in the program.

STATEMENT OF GARY R. NESS, DIRECTOR, NORTH DAKOTA AERONAUTICS COMMISSION

I bring to this committee greetings from the State of North Dakota.

To address the subject to the continuance of Essential Air Service, the State of North Dakota has 3 EAS supported airports (Williston, Jamestown and Devils Lake). With the total number of 8 air carrier type airports in the State, it shown that the total effect of the discontinuance of the program would have disastrous ef-

fects on the economic well being and future planning and recovery for these communities and the State.

The communities involved are situated such that the discontinuance would effect the developing growth potential for attracting new business to their locals. As we all know, the first questions asked by new business looking at a community is "What is the air service in your town?". With the discontinuance of the EAS to these cities, the answer will be "we don't have air service". These communities are small in nature in comparision to the norm, however, they are vital to the growth of their regions within our state. They are between 1½ hours to 2 hours highway time from any other air carrier airports and this does not lend to a desirable environment to new business recruitment.

I quote an economic consulting firm for the State of North Dakota: "The State's economy is volatile and anything could trip it into further recession". The discontinuance could trigger that recession in these three cities and the State, as they attempt to make progress on developing a broader based economy other than agriculture related or mineral related business as it is today.

To emphasize the economic downturn, our state lawmakers just finished a legislative session. They adjusted our state income tax and sales tax in conjunction with budget cuts to make up a projected shortfall of $300 million for the upcoming biennium. This present biennium, that State started with a $150 million surplus, the ag and mineral related problems caused the tax base to faulter enough that the surplus was eliminated. So, you can see that the state has serious problems to deal with and it is generated by the base of economy of the State. With all the pressures financially on the State, we do not see how we could enter into a subsidy program at this present time. However, the State has not sat idle with the EAS airports. We have contributed to the three a total of $860,000 since 1979 on a State/local matching grant basis, for airport improvements.

As the major airlines develop their "hub and spoke" concept, North Dakota will continue to lose the services now in place. This is illustrated by Exhibits A to H attached.[1] To further illustrate the effects of deregulation, I've attached Exhibit I which shows the decrease of available seats in the North Dakota market. An absolute change of 5,744 decrease of seat available or a −40% change. The Commuter type airlines will become more important to our business and governmental travel. The discontinuance of EAS will hinder the possible development of alternative air service in our state.

We, at the Aeronautics Commission, suggest that every possible method for continuance of a form of EAS be considered. With no stone unturned for a simplistic method of administration, to insure a realistic successful operation is continued. A method of administration that gives the carriers, as well as the communities, some flexibility in future planning and marketing.

The needs and capabilities of the affected communities should be heard. The communities have the knowledge of the market to help pick a carrier. A percentage of the subsidy should be ear marked for marketing/promotion.

Low bidder selection should be review. The possibility of survival in future markets and the capabilities of success to create a subsidy free profitable service should be considered. The low bidder should not bestow only critera for the bid winner.

Subsidy rates should reward a winner on service. In the past if a carrier showed marketing ability and successful planning for service and showed marketing ability and successful planning for service and showed a profit, the EAS policy was to reduce subsidy which in affect punished the carrier for a successful promotional, educational service program.

More attention should be paid to scheduling. Community needs may not fit the schedule produced by carrier, thus creating a failure before start up. The subsidy selection criteria should use this factor as a guide toward contract awarding.

These problems in the past have not been a concern and its apparent in some markets. The total cost of the EAS program to a return on investment ratio is the best in the federal budget. With some adjustments to the program it will be the bench mark for other programs in the future.

All three North Dakota communities are highly likely to be dislocated from the nation's air transportation network if the EAS program is discountinued.

America"s aspiration of energy independence relies in part with the Williston Oil Basin. Air service loss would inhibit this growth and development.

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[1] The exhibits were not reproducible.

Small community air service to the National Airway System is critical for economic, social, medical, educational, and general welfare and for the future growth of the rural economy of our state.

Air service loss eliminates the attractive climate for tourism and national convention and recreational visitor's access to our state

In the case of both Devils Lake and Jamestown, they have small manufacturing firms who have been able to capture military material contracts. Discontinuance of air service would inhibit their continuation of acceptable access to business type travel, as they broaden the market and the base of their manufacturing expertise.

In conclusion, when you look at the concentration of EAS airports in the Central U.S. and the economic downturn in the region and the fact that the EAS was developed as a "Buy-off" of the region for deregulation, this Committee should take note that the bread basket of the country is in economic upheaval and any form of disruption would mean a disastrous effect for the total economic picture to Central U.S.

There is one thing that stands clear. Whether it is ag-related or mineral related, we in the Central U.S. sell everything we produce at wholesale and buy everything at retail and pay the freight both ways. It is time to take some positive action for this region and this Committee has its chance to do just that, by fairly addressing the issue and developing for Congress a financial continuation option. Thus, meeting the needs of these communities without risking air transportation dislocation.

STATEMENT OF JACK K. DANIELS, REPRESENTING THE CITY OF WILLISTON, ND

PREFACE

My name is Jack K. Daniels and I submit the following on behalf of the cities in North Dakota as the state coordinator of the National Committee of Cities and States for Airline Service and more specifically for the city of Williston, North Dakota.

My interests in the issue of scheduled air service to rural AMERICA dates back to the mid 1950's and is compounding itself annually. We in RURAL AMERICA have been engaged in a battle to continue scheduled commercial passenger air service in our areas since that time.

This battle has covered the "USE IT OR LOST IT" phases of actions perpetrated by the Civil Aeronautics Board, the 406 program, service by small aircraft operated by a FAA Far Part 121 airline companies, and the efforts of the Essential Air Service division of the Department of Transportation, doing all that it could, through interpretation of Section 419 of the Airline Deregulation Act, to kill what was left of scheduled air service to rural America.

THE ISSUE

While the position of the principals of the Essential Air Service division of the Department of Transportation is one of "IT IS WORKING", the real world action of the deregulated air carrier situation today, versus that of 1978 can best be described by referring to Exhibits A, B and C, attached to this document.

The current status of scheduled commercial air service in the rural areas in which I live and work is graphically less.

Rural America has been left at the starting gate while metropolitan America has enjoyed the benefits of more and cheaper scheduled service by air, more and cheaper scheduled service by Metro trains, and more and cheaper service by Metro buses.

No one seems to care about Small Town, U.S.A., socially or economically.

While we who receive some monetary assistance for scheduled air service have been moving toward self-reliance and non-subsidized service we have been faced with uncontrollable set backs in the form of the controller's strikes, new carrier bankruptcies, air carrier mergers, economic disasters (see Exhibits D and E), and numerous other issues that have set back all our efforts to move forward.

Much of the action projected to take place in the air carrier industry in the early years of DEREGULATION have just now taken place. A situation that no one forecast.

This latent activity has left the emerging commuter air carriers serving rural America in a constant state of flux, where long-range planning is impossible.

While we in RURAL AMERICA are being beaten back by these ever changing conditions, the metropolitan areas of the coasts and industrial complex around Chicago have gotten their act together and are coming out as strong (totally free of subsidy) communities.

In spite of all the set backs, it can be shown that the subsidy need has diminished over the years since 1978. At that time, Section 406 had subsidy needs of $73.9 million. That need rose to $121.7 million in 1981 with the start up of many 419 carriers and the hold in provisions of the 406 carriers while the commuters were getting started.

That need has now dropped to an estimated $28.0 million for fiscal 1987.

That, members of this committee, is progress in spite of the adversities that the people and the air carriers have had to face with the economy and hassle from the managers of the EAS program.

You have before you, for consideration, a piece of legislation that has been hammered out by intelligent men from all over rural America that provides for a continued program.

It is legislation that prospers from the hastily prepared, poorly interpreted Section 419 of the deregulation act.

At its inception, Section 419 was to be a unique program, providing a new approach which was to improve air service to Small Town, U.S.A. The 419 program was to provide air carrier companies incentives and assure community and state involvement. The program was billed as the most far reaching cooperative effort among the communities, states, the federal government and air carriers. It was aimed at helping small communities air service become self-sufficient.

Unfortunately, the law creating the Essential Air Service programs was not the cure-all it was projected to be and its administration has diluted the frustrated community/state attempts to get it on track as conceived.

The defects in the law and the policies of the DOT are being addressed in proposed legislation. We are debating those issues here today, and they will be strengthened during the debates.

Two primary areas of concern to Small Town, U.S.A., are the joint fares which makes per seat mile cost as much as eight times higher in the rural areas over those of the metropolitan areas (see Exhibit F) and the lack of route protection for EAS contract carriers from dilution by another EAS contract carrier branching out into what is perceived to be a lucrative market, having been built up by the original EAS carriers.

The defects in the administration of Section 419 can best be described by the rigid internal policies of the C.A.B. which carried onward the basic philosophies of the old regulated environment of 45 years ago.

No concern for community/state involvement was accepted or permitted, it was contrary to C.A.B. policy. The efforts to negotiate contracts for service from a reliable airline company, at a price which would cover costs plus a return, fell on deaf ears and these efforts turned into a year-long evidentiary hearing that could not be decided without mountains of paper and time-consuming efforts.

The 120-day decision time, of such proceedings, was totally ignored by the C.A.B., now D.O.T. managers of the program.

Small Town, U.S.A., does not have the talent nor the resources to combat the onslaught of the bureaucracies impact on the future of their scheduled air service. Many cities were left to the mercies of the bureaucrat.

The continuing efforts on the part of the current administration to short circuit the program has placed the carriers, the cities, and the states in an unstable environment that demoralized all the efforts of everyone involved.

This nation was founded on its support of transportation. Those ideas and ideals of our founding fathers that made our country what it is today, could not have been realized had we not pushed for an adequate system of rail, highway and air transportation. The nation wants and needs to be able to move about freely if it is to continue to grow and prosper.

The proposed legislation under consideration today moves in the direction of doing just that. We have come too far in our efforts to provide a grid of scheduled air service throughout this United States to allow the Essential Air Service, so vital to the commerce of our nation, to deteriorate to what it will become if the program is allowed to die.

I have attached various additional Exhibits to this document that graphically show the relationship between the economy of our area and the use of our scheduled air carrier service.

Exhibit "G" shows a comparison of the subsidy need for the airline industry, as well as mass transit and passenger rail services, provided by the federal government.

Exhibit "H" shows the relationship between the unemployment and taxable retail sales and the passenger boardings at Williston.

Exhibit "I" indicates the impact of subsidy supported air carriers (Pioneer Airlines and Big Sky Airlines) and what happens when one enters the market as a free agent in competition with the contract carrier.

Exhibit "J" indicates the potential market for Williston if we can obtain reasonable joint fares through our carrier's association with our area's major trunk airline, Northwest Orient.

CONCLUSION

The EAS program has just recently taken on the shape and design of the intent of Section 419.

The program needs additional time to bear the fruits of the efforts of some 45 years of experimenting with ways and means of serving the entire nation with scheduled commercial air service.

The proposed legislation is the first real thought out, studied attempt to set the stage for a creative solution to those issues continuing to plaque the efforts of the Congress and the citizens of rural America to provide a viable system of scheduled air service to Small Town, U.S.A.

The benefits to the economy from the actions of this legislation will produce more than enough tax benefit to the federal treasury than the costs of a continued program.

Based on the information available to this committee, I urge you in the strongest possible terms to report this legislation out of this committee with a unanimous do pass recommendation.

STATEMENT OF JAMES L. NITCHALS, CITY ADMINISTRATOR, FERGUS FALLS, MN

Mr. Chairman, members of the committee, my name is Jim Nitchals and I am the city administrator of Fergus Falls, Minnesota. I appreciate the opportunity to provide testimony in support of the extension and modification of the Essential Air Service Act.

We believe strongly in the need for continuation and modification of the program to include cities like ours which have not been served by regularly scheduled air service under current law.

Fergus Falls is a city of approximately 13,000 people located in northwestern Minnesota. We are 180 ground miles from Minneapolis-St. Paul and 65 ground miles from Fargo, North Dakota.

Our population is generally older than national averages for rural areas, with 18.2% of our residents over the age of 65 years. Travels is especially difficult for our older population and is compounded by the difficulties of winter driving to the nearest airport with scheduled air service. Sixty-five miles can be a very long way in winter. We have no rail passenger service and seriously declining bus transportation.

When the Essential Air Service Program was established by the Airline Deregulation Act of 1978, Fergus Falls was not served by a certificated air carrier. Therefore, we have been without scheduled air service these past ten years.

We believe that our community has been operating at a disadvantage because we have lacked regularly scheduled airline service. We are the home of several national organizations and businesses who have been forced to limit their expansion in our community due to the expense and difficulties that the lack of airline service presents to their employees and the people they serve.

Most recently, a church group which has its world headquarters and seminary in Fergus Falls seriously contemplated moving their headquarters from our community, largely because of the difficulties encountered by people traveling from throughout the world and the United States to our city.

A national rural organization has its headquarters in our community. But as it has grown and expanded, they have located their new offices and businesses near airline service. They have also relocated people from our community into these new locations.

The people who are employed by these and other organizations in our community are people who earn higher salaries than are normally found in rural communities of our size and each one who leaves or does not come here represents a serious economic loss to our community. We simply cannot afford to lose them.

And we are convinced that they would still be in our community and would have been joined by others if Fergus Falls had regularly scheduled airline service.

Fergus Falls has one of the most aggressive, innovative and successful economic development programs found in any rural community of comparable size. Our ef-

forts have been noticed by the St. Paul, Minnesota Chamber of Commerce and our activities were recently high lighted in a Federal Reserve Bank publication covering economic indicators of our region.

Yet, we are put at a disadvantage by the lack of regularly scheduled air service. That is one of the first three questions we are asked when talking with a business which is looking at relocation and expansion sites.

Fergus Falls has become a regional center for retail and services in west central Minnesota. We have a large medical community with the third largest multi-specialty medical group in rural Minnesota and the nation's only hospital that has been designated by Congress as a Rural Secondary Specialty Center.

Our community has not been standing still, even without the advantages that other communities in Minnesota and throughout the nation have enjoyed who have been served under the Essential Air Services Program.

During the past ten years that EAS has been in effect, there have been attempts in Fergus Falls to establish a regularly scheduled commuter service between Fergus Falls and Minneapolis-St. Paul. The attempts have not been successful, for a number of reasons. The aircraft was too small to attract travelers, there were no joint fares or shared codes and the operator was undercapitalized to withstand the long period of financial losses necessary to change travel patterns in the general public. Without a federal subsidy to enable such an operation to become established and successful, it is impossible for regularly scheduled air service to exist in our community.

On behalf of the people of Fergus Falls, Minnesota, and Otter Tail County, I urge you to continue and modify the Essential Air Service Program. We support modifications that will enable communities likes ours, not now served under current law, to have timely and affordable access to regularly scheduled air line service.

I am attaching recent news stories from our paper highlighting the importance that this issue has in our community and a resolution passed by our city council.

Thank you for the opportunity to submit testimony in support of the extension and modification of the Essential Air Service Program.

SQUIRE, SANDERS & DEMPSEY,
Washington, DC, April 17, 1987.

Hon. WENDELL H. FORD,
Chairman, Subcommittee on Aviation of the Senate Committee on Commerce, Science, and Transportation, Hart Senate Office Building, Washington, DC.

Hon. NANCY L. KASSEBAUM,
Subcommittee on Aviation of the Senate, Committee on Commerce, Science, and Transportation, Hart Senate Office Building, Washington, DC.

Dear SENATORS FORD and KASSEBAUM: Alaska Airlines, Inc. and Horizon Air, both of which currently provide essential air service to small isolated communities in the State of Alaska and Washington are writing to express their strong support for Congressional action to extend the Essential Air Service program.

Alaska Airlines has been a participant in the Essential Air Service program as well as its predecessor program in providing essential air service to five isolated communities in Southeast Alaska since 1968. These communities' sole transportation link with the outside world consists of air and barge service. Those communities have come to rely on their daily air service as we are confident have the other isolated essential air servce communities throughout the nation.

The Essential Air Service program was a cornerstone of deregulation and was designed to assure the continuation of service to the smaller isolated communities which would never enjoy the increased service and lower fares that deregulation was expected to bring to many of the larger communities in the United States. The program has been successful and that success has been achieved in spite of the program's cost being lowered by two-thirds from a high of $115 million on an annual basis to less than $35 million for the entire country. The reduction in compensation paid to the Alaska carriers parallels the nationwide experience in that the payments within the State peaked at $10.5 million in contrast to the current level of less than $3 million.

The concerns expressed by many about aircraft delays, labor protection and numerous other issues now under consideration pale in importance to the need to maintain the highly cost-effective Essential Air Service program. Aircraft delays and baggage loss problems are problems these isolated communities would welcome if the alternative is no air service at all. It is indeed unfortunate that the Adminis-

tration has seen fit to take a position in favor of elimination of this program which is simply not supported by the facts.

Preservation of the Essential Air Service program is a matter of prime importance and requires affirmative legislative action which should be forthcoming. Alaska is more than willing to present additional information to you or your staffs and, if appropriate, will also appear as a witness should you so desire.

Sincerely yours,

MARSHALL S. SINICK.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS,
Washington, DC, July 10, 1987.

Hon. WENDELL FORD,
Chairman, Aviation Subcommittee of the Senate Committee on Commerce, Science, and Transportation, Russell Senate Office Building, Washington, DC.

Dear SENATOR FORD: When your committee was holding hearings last April on the reauthorization of the Airport and Airway Improvement Act, we were asked to testify on that subject, and were pleased to do so.

AASHTO has recently approved a new Policy Resolution which supports the extention of an essential service program past the sunset date of the current program. We have been advised that your subcommittee will hold a hearing on this subject on July 30, 1987. We thus request that the enclosed Policy Resolution on Essential Air Service be included in the record of this hearing.

We trust that these views will be of assistance to you and the other members of the Senate. We will be pleased to respond to any questions you have, or provide further information.

Very truly yours,

FRANCIS B. FRANCOIS,
Executive Director.

U.S. SENATE,
Washington, D.C., July 13, 1987.

Hon. WENDELL H. FORD,
Chairman, Senate Commerce Committee, Subcommittee on Aviation,
Hart Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: In 1978 Congress enacted the Essential Air Service Program in order to protect remote rural communities from losing air service as a result of deregulation. About 150 communities currently use the EAS Program to provide service to businesses and passenger users who otherwise would have to travel long distances to the nearest airport or, in some cases, would have no air service whatsoever. EAS has been critical to the economic well-being of these communities.

We appreciate your efforts to reauthorize this program. In particular, we appreciate the fact that the Aviation Subcommittee will hold a hearing on EAS soon. Given the importance of EAS, we believe the reauthorizing legislation should be enacted this year so that the numerous EAS-dependent communities will be spared the stress and uncertainty of a race-against-the-clock reauthorization next year. Therefore, we respectfully urge the Subcommittee to give this issue its urgent attention.

Early enactment of Essential Air Service following the hearing will preserve vital air service for dozens of isolated communities that depend on this link for their lives and their livelihood. We ask your assistance in insuring that this important legislation receives early and favorable consideration.

Sincerely,

MAX BAUCUS
(And 29 other Senators).

DEVILS LAKE MUNICIPAL AIRPORT AUTHORITY,
Devils Lake, ND.

Senator WENDEL H. FORD,
Chairman, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Aviation, U.S. Senate, Russell Office Building, Washington, DC.

DEAR SENATOR FORD AND MEMBERS OF THE COMMITTEE: Enclosed in this packet, for your review, are letters or concern from many divergent businesses, individuals

and service oriented entities such as hospitals, clinics and governmental units that use airline service in our region.

These are just a few of the many who will be affected should airline service be suspended. Needless to say, the economic impact would be extreme and the effect on the health care industry would be dramatic.

Our testimony from the Devils Lake Municipal Airport Authority is also included for your review.

Mr. James Kuchar, Chairman of the Devils Lake Municipal Airport Authority, and myself, Kenneth E. Koehn, Manager of the Devils Lake Municipal Airport, are here today for your hearing on the continuation of the Essential Air Service program. Should you need clarification on our testimony or wish us to make further comment, we will be glad to try to answer your questions.

Please enter these letters and our testimony in the record.

Thank you for the privilege of appearing before your committee.

KENNETH E. KOEHN,
Airport Manager, Devils Lake, ND.

Enclosures.[1]

DEVILS LAKE MUNICIPAL AIRPORT AUTHORITY,
Devils Lake, ND, July 23, 1987.

Senator WENDEL H. FORD,
Chairman, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Aviation, U.S. Senate, Russell Office Building, Washington, DC.

DEAR SENATOR FORD AND MEMBERS OF THE COMMITTEE: We at Devils Lake Municipal Airport Authority would like to make the following comments and views.

First of all, with all the confusion from the deregulation of the airlines, it would seem that a system of commuter airlines such as we are served by in Devils Lake is the correct way to serve Rural America in a cost-effective manner.

It is true that in fiscal 1986, approximately $27.8 million was expended for the E.A.S. Program; but a closer look at what the various taxes on commuter airline tickets, 5% waybills on air freight, 12¢ gallon on aviation gas, and 14¢ gallon on jet fuel, produce in income to the trust fund (approximately 16 million dollars), then the conclusion is that difference between what the subsidy is: 27.8 million less the 16 million or a net cost of 11.8 million for all subsidized E.A.S. cities in the United States.

Our Airport Authority has worked many long, hard hours to bring our region the kind of transportation that will serve the general public best. We have strived to provide transportation at an affordable cost. Our taxpayers on a local and state level have a deep financial commitment in providing the best of facilities for our airline patrons under the safest conditions.

We were asked in a D.O.T. questionnaire sent to us as an Airport Authority and to the City Mayor, if the E.A.S. Program is to be continued what commitment would the Airport Authority, the City and the State, be agreeable to contribute.

Here at Devils Lake, we have a budget for $107,000 for operation of the Airport. From a 1-mill levy on the county, we receive $14,000 per year. From a 4-mill levy on the city, we receive $32,000. From the state, we receive $25,000 per year. You must agree that is a deep financial commitment on the part of the County, City, State, and Airport Authority when 70% of our budget comes from local and State funding.

It should be noted that our State Legislature just met to resolve a $300 Million shortfall by increasing the sales tax from 4% and 5½%, the income tax from 10½% to 14%, and adding a 10% surtax for one year.

I know that you have heard before that things are tough out in Rural America, and they are. It is imperative that a viable industry like aviation be sustained. It is one of the very few positive economic entities left in Rural America.

It would seem to me, with the rural states all facing these huge increases in taxes to handle deficits, that it is totally out of whack for you to ask that we share on a participating cost basis when we already have a 70% commitment in dollars to continue air service to Rural America.

The D.O.T., as a department, has been most helpful in the selection of Mesaba Airlines to serve our city and region.

We feel very strongly about the future of airline service to Devils Lake with the type of airline and the type of aircraft now used (Metro III).

Since June of 1986 through June of 1987, when the change was made from the old Beach 99 plane to the Metro III (a period of 12 months), we have experienced an 88% increase in boardings. You must agree that this is a phenomenal growth.

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[1] The enclosures are in the Committee files.

With this type of growth, it would be a shame to throw out the baby with the washer water when it is becoming more healthy each month. To pull the lifeline (E.A.S. Program) at this time would be a disaster.

It is important to look at the E.A.S. Program in light of what it would do to airports such as ours if it should be discontinued:

1. Without airline service, our classification for the A.I.P. Program would drop, due to less boardings. It would be impossible to maintain the fine airport facilities for even the bare minimums to our region. Many thousands of people would be left unserved.

2. The additional cost of driving hundreds of miles to another airport would be too much to ask of our patrons.

3. Local industry could not be served, nor would new industry select a city without an airline.

4. The negative effect or our city as a regional medical center would be a disaster. It should be noted also that, as the average life expectancy goes up, the demand for regional medical centers increases. We have experienced an ever-increasing demand for air service to and from regional medical centers.

5. The large Devils Lake Sioux Manufacturing Plant which employs 500 people relies on air freight and air passenger service heavily, and this minority defense contractor would be placed at an extreme disadvantage.

6. We are a predominately farm area that relies on aerial crop sprayers. Crop spraying operations off the Devils Lake Airport would be curtailed without funds to maintain the airport, creating a negative effect on food costs.

7. It is of vital interest to the Administration of the North Dakota School for the Deaf because the students are flown home on the weekends. The cost of maintaining dormitory staff on weekends far exceeds the cost of flying these students home to be with families. This important program would have to be discontinued without Essential Air Service.

8. Last, but not least, the North Dakota National Guard's year-around camp is situated at Devils Lake. The National Guard brings in guardmen from all over the nation for training to Devils Lake. The North Dakota Air National Guard flies in troops and also uses our commuter airline extensively. The Airport Authority has made space available for use by the National Guard. It is of extreme importance that airline service be available to the National Guard; and, needless to say, a well-maintained airport is needed for national defense purposes.

It would seem to us that the question is: Will Rural America receive its fair share of quality air service, and if not, what will the cost be?

It is obvious from the facts we have stated earlier that our people will pay dearly for a few temporary dollar savings. We can't stand by and see this happen, and we feel that Congress will feel the same way.

In Summary: The E.A.S. Program is working as evidenced by the decease in cost to the taxpayer each year. The fact that deregulation will and has in fact increased the boardings of the commuter airlines, thus, making them more viable, points out that the E.A.S. Program is building a better transportation system for Rural America. From an investment standpoint, it is obvious that the E.A.S. Program is working. We on a city and state level are committed to quality air service for our people as evidenced by our dollar commitment to our airports. We commend Congress for the E.A.S. Program, and pledge our support to work with Congress to provide Essential Air Service to Rural America.

KENNETH E. KOEHN, *Airport Manager.*

SLOULIN FIELD INTERNATIONAL AIRPORT,
Williston, ND, July 27, 1987.

Senator WENDELL FORD,
U.S. Senate,
Hart Senate Office Building, Washington, DC.

DEAR SENATOR FORD: Please consider this correspondence as a formal statement from the City of Williston, North Dakota in support of a subsidy program after October 1, 1988 for airlines serving small communities.

It is essential, for planning purposes and airline stability, that some form of subsidy reauthorization is passed in FY 1987 versus FY 1988.

Airline service to many rural communities is one of the last forms of public transportation. People in rural America need access to the national transportation system for many reasons ranging from medical care to economic development.

The 1978 10 year Essential Air Service program has started to work for many communities just in the last few years. It has started to work primarily because of the joint fares now being offered with many major airlines. The joint fares were not available for the first 6–7 years of deregulation because the airlines were too busy competing and recently merging.

Many communities have the opportunity now to develop their market and eventually have the ability to sustain an airline without subsidy. This can only happen if the communities are given more time.

Air service is vital to many communities in the United States and a continuation of a subsidy program must be put in place this year to properly plan for the future.

Sincerely,

GERALD K. OLSON, *Airport Manager.*

BERT MOONEY AIRPORT AUTHORITY,
Butte, MT, July 28, 1987.

Hon. MAX BAUCUS,
Dirksen Senate Office Building,
Washington, DC.

DEAR SENATOR: We feel the loss of EAS in Montana will certainly result in discontinued air service to Sidney, Glendive, Miles City, Havre, Lewistown, Glasgow, Wolf Point and West Yellowstone.

The loss of air service at these communities will invariably create an unnecessary hardship to businesses as well as to the economic atmosphere. Air service to the communities is also extremely important to the Montana airport system which provided an expedient method of travel over long distances. Adequate air service provides for the communities needs in any number of areas as the title so adequately expounds. We, therefore, wish to support the early reauthorization of the essential air service legislation.

Yours truly,

ANGELO PETRONE, *Airport Manager.*

JULY 28, 1987.

DEAR SIR: I use air service frequently from Sidney to various cities in the Denver region. It would be very difficult to substitute the service we now enjoy. From a cost & time element, it would be impossible if we lose our service. It will greatly affect my job performance. Please do all you can to maintain this necessary "Life Line" to our community.

MARIAN KUPPER.

ANACONDA CITY-COUNTY AIRPORT BOARD,
Anaconda, MT, July 28, 1987.

Hon. MAX BAUCUS,
Committee on Finance,
U.S. Senate, Washington, DC.

DEAR SIR: The Anaconda City-County Airport Board, by a majority vote, went on record July 29, 1987 as being in favor of the early reauthorization of the Essential Air Service Program.

We understand that without the EAS Program eight cities and towns in Montana could lose their Commercial Air Service. We ask that you include our letter in the record of the Hearing for the early reauthorization of the EAS Service.

The State of Montana because of its size and distance between towns and cities is more dependent on air service than of any other mode of transportation.

We urge you to please preserve this very much needed program.

Sincerely yours,

LOUIS C. MERTZIG, Jr.,
Manager and Secretary.

JULY 30, 1987.

DEAR SIR: Sidney, Montana, does not have: 2 major airports; a subway system; train service; taxi service; Metro bus service; and limo service.

Sidney, Montana, and many small isolated cities now have Big Sky Airlines Northwest Airlink as only means of transportation.

We beg you, please allow us to keep our only link to the world.

Thank you.

MARILYN BLONDEE JOHNSON.

STEVE COWPER
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July 30, 1987

The Honorable Wendell H. Ford
Chairman
Senate Subcommittee on Aviation
428 Hart Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

The State of Alaska appreciates the opportunity to comment on the importance of the Essential Air Service (EAS) Program. Regular, dependable air service is crucial to rural Alaska since it is, in most cases, the only means of year-round access these villages have. Most of Alaska is inaccessible by road. Marine transport, which is used for most heavy cargo, cannot satisfy all of our communities' transportation needs. Instead, Alaska depends on aviation.

Medical care, the transportation of food and other consumer goods, the export of many Alaskan resources, and the everyday travel needs of rural Alaskans, require dependable, scheduled air service. We are enclosing a map which graphically illustrates the isolation of Alaskan communities currently served by EAS. Note that only a few of the Alaska EAS points are on the road system.

Alaska contains over 230 EAS points of which about 40 currently receive subsidized air service. (See enclosed map and chart.) Regularly scheduled service to these communities would be in jeopardy if the EAS program is terminated.

If the EAS program is ended, frequency of air service would decrease, communities would be served by smaller aircraft, air fares would rise, and there would be less frequent or no direct connections to hub airports. In some cases, scheduled air service would likely be discontinued. Local economies already suffering from a statewide recession, would lose existing businesses and would have difficulty attracting new businesses.

Federal expenditures for EAS in Alaska have decreased substantially since the EAS program began, and the goal of allowing the free market under deregulation to eventually shoulder the burden of air access for communities has been

achieved to a great extent in Alaska. About $3 million in EAS subsidies were spent in Alaska in 1986, a good investment considering the substantial benefits received by the remote communities. While future needs are difficult to predict, we anticipate that overall requirements in the state will continue to decline as air traffic in some communities increases.

However, some of the smaller Alaskan communities may always need subsidized air service to retain basic transportation service. Projected low-traffic levels and high operating costs do not portend adequate levels of commercial air service without EAS.

The State of Alaska and its communities are faced with dramatic budget reductions at a time when many basic services remain unmet. The state already subsidizes transportation in Alaska by operating and maintaining almost 300 airports, many ports and harbors, and over 11,000 miles of roads and marine highway routes which do not produce sufficient revenue to cover operating and maintenance costs. Accordingly, we support continued federal funding for EAS.

Enclosed is supporting information from some of the Alaskan communities, businesses, and the U.S. Forest Service which currently receive air service through the EAS program. This material tells the importance of the EAS program. The following are short excerpts:

> City of Chisana; population 23 - "Chisana is about a 45-minute flight southeast of Tok. We have no roads (winter or summer) and no phones. The once-a-week scheduled flight into Chisana is our lifeline. We are about as isolated as they come."
>
> City of Cordova; population 2,520 - "A five-hour ferry trip and 300 miles of road are necessary to reach Anchorage (nearest hub airport) by road. Discontinuation of the transportation subsidies before the routes are totally self-supporting could have a devastating impact on the local economy."
>
> City of Atka; population 90 - "Atka is located on an island; there are no roads in Atka. The only way to get to Dutch Harbor (hub airport) from Atka is to charter a plane at $2,500 to $3,000 one-way."
>
> City of Seward; population 2,300 - "It (the elimination of EAS) would severely curtail, perhaps eliminate any scheduled air service for Seward. Few could afford the cost of charter service so the effect of the loss of EAS would be no air service to Seward, practically speaking."

City of Petersburg; population 3,252 - "Economic growth would virtually come to a halt. A projected 900,000 pounds of fresh seafood would not get to market causing a loss of jobs to processors and fishermen in southeast Alaska. Cost of doing business for our four seafood processors would escalate dramatically...lose the ability to medi-vac critical-care patients to acute care centers without the cost of such services being prohibitive to some patients. Education of the young people in southeast Alaska would suffer tremendously...most inter-school activities are subject to transportation by air."

U.S. Forest Service - "Should jet service be discontinued, not only passenger service but also safety will become key issues in scheduling flights."

Gayle Wind Seafoods - "If the subsidy is withdrawn and/or Alaska Airlines pulls out of the smaller communities, such as Petersburg and Wrangell, it would effectively put us out of business, as well as several other small processors."

Southeast Conference - "Without the subsidy, service will be severely reduced and will be inadequate to handle the mail, freight, and personal- and business-travel needs of the communities."

As you can see from the testimony above, Alaska's economy would be seriously impacted by a curtailment of EAS in the state. EAS is a critical element to the social and economic well-being of many communities.

Several proposals for extension of the EAS program have been made, and more are likely in the future. The State of Alaska supports continuation of an EAS program similar to the status quo. Other proposals that require state or local matching funds are unrealistic, given Alaska's current economic conditions and the large subsidies already paid by the state to operate and maintain its transportation facilities. The existing EAS program provides basic air service needs, while it reduces the overall subsidy requirements.

I believe Alaska's need for the EAS program to be undeniable because of our vast size, low population, and our reliance on air transportation as the sole means of access between many communities. I hope that you consider Alaska's unique needs in your development of EAS legislation. Thank you for the opportunity to discuss the importance of this program to Alaska.

Sincerely,

John W. Katz for

Steve Cowper
Governor

AMERICAN BUS ASSOCIATION

1025 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036 (202) 293-5890

1987 AUG -7 PM 3:59

Norman R. Sherlock
President and
Chief Executive Officer

August 6, 1987

Honorable Ernest F. Hollings, Chairman
Committee on Commerce, Science, and Transportation
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The American Bus Association (ABA) is pleased to submit the following comments concerning reauthorization of the essential air service program (EAS).

ABA opposes reauthorization of EAS because it is an unnecessary expenditure of public funds and because the program is counterproductive in that it is damaging to the backbone of rural transportation -- unsubsidized private sector bus service. Moreover, if EAS were reauthorized, there should be a substantial minimum mileage below which EAS could not be used; there should not be any expansion of the program through new federal-state cost sharing provisions; and, there should be a requirement that the Secretary of Transportation determine that there is no existing, adequate motor coach service before Federal funds are used to subsidize alternative air service.

The American Bus Association is the national trade association of the intercity bus industry. We represent approximately 700 bus operating companies that provide regular route, airport, charter, tour and sightseeing, and contract commuter services. Many of these carriers provide rural regular route transportation service, some in direct competition with EAS air carriers. These carriers using unsubsidized surface transportation stand ready to fill any market niches created by termination of subsidized air service.

Intercity buses remain the heart of the rural transportation network; buses still serve almost 10,000 communities compared to fewer than 1,500 by air service and Amtrak combined. But bus service has declined rapidly, having gone from 17,500 communities served in 1971 to 9,800 communities served in 1984.

The main cause of this decline is the devastating cumulative effect of subsidies to other modes. Air service has benefited by the creation of an airport infrastructure created primarily with taxpayer funds (although it is now funded on an ongoing basis by user fees); Amtrak has absorbed billions of dollars in federal subsidies over the last fifteen years and continues to compete with intercity bus service with fares that are far below even its variable cost of operation; and, the federally subsidized transit bus fleet has grown so large that transit agencies have expanded into the charter bus field to the detriment of many small charter bus operators.

EAS is a small, but significant, part of this overall trend. Virtually all of the 95 cities now receiving EAS subsidies have alternative bus service and, in the vast majority of cases, bus service is the only public alternative to the EAS service. Thus, the EAS subsidized service is depriving unsubsidized bus companies of much needed passenger revenue. In many cases, that revenue could mean the difference between continuance and cessation of existing bus service.

Not only is EAS damaging to continued rural bus service, it really is not serving a public need sufficient to justify continued federal subsidies given the alternative unsubsidized bus service that is available. Most of the communities that are now being subsidized and would lose service without the subsidy are less than 100 miles from the nearest hub city. This represents approximately a two hour bus or car ride. Given today's modern, airconditioned, restroom equipped motor coaches with reclining seats and individual reading lights, a two hour ride is quite comfortable; indeed, it may be considerably more comfortable than the ride on the small aircraft covering that same distance.

Also, many of the communities receiving substantial subsidies have convenient, multiple motor coach schedules daily. Here are a few examples: Manitowoc, Wisconsin, with an EAS per passenger subsidy of $515, has five round trip bus trips a day to and from Milwaukee; Jackson, Michigan, with a per passenger subsidy of $236, has nine round trips daily to various locations; and, McAlester, Oklahoma, which has a $221 per passenger subsidy, has five round trips per day to Tulsa or Oklahoma City.

Reauthorization and expansion of the essential air services program is particularly inappropriate now because of recent developments in the intercity bus industry. As you know, Greyhound and Trailways now have merged and whereas there previously had been two struggling companies battling each other and cutting cost and service in order to survive, there now will be one strong company with a rationalized service structure intent on expanding, rather than contracting, its service

network. Congress should give this unsubsidized bus service an opportunity to expand and to meet rural transportation needs before enacting a costly new transportation subsidy program.

We believe it is clear that the EAS program is no longer necessary and indeed is now counterproductive in that it is damaging the provision of unsubsidized bus service, but if Congress decides to reauthorize the program we urge the enactment of several provisions that will limit the damage to motor coach service and prevent the unnecessary expansion of the subsidy.

First, any point should be a minimum distance to a community with unsubsidized air service before it should be considered an "eligible point" for an essential air subsidy. S. 582 provides that points must be "within one hour from a hub city" by automobile before they qualify. This minimum distance, or time, is much too short. It seems to us that a 150 mile minimum, which is approximately three hours driving or riding time, is appropriate. Two hours, as we indicated earlier, on a modern motor coach can be quite enjoyable and relaxing, particularly when cruising down a rural highway, and three hours is the minimum that can seriously be argued creates any sort of hardship for the passenger.

Second, air subsidies simply cannot be cost justified when adequate motor coach service is available. Therefore, we believe that the Secretary of DOT should be required to make a determination that there is no adequate motor coach service available from the point seeking a subsidy to the nearest hub city before an air service subsidy can be granted.

Finally, we strongly oppose the proposals to expand EAS by providing 50% federal subsidies for enhanced and new air service. In this time of great budget restraint, it makes no sense for the federal government to be subsidizing new or expanded air service. No need for this subsidy expansion has been shown, and such expansion would in all likelihood further damage existing bus service to the involved communities.

I appreciate the opportunity to comment on behalf of ABA on this important subject, and I would be happy to provide any follow up information that you may desire.

Sincerely yours,

Norman R. Sherlock

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July 30, 1987

Honorable J. James Exon
U.S. Senator for Nebraska
3313 Hart Office Building
Washington, DC 20510

Dear Senator Exon:

I am authorized by the Mayor and the Air Transportation Committee for the City of North Platte, Nebraska, to make this presentation on behalf of this City. We are responding to notice that your bill, S582 proposing to extend the Essential Air Service Program, is set for hearing before the Senate Aviation Subcommittee July 30, 1987. We would appreciate it if these remarks may be made a part of the evidentiary record made before the Subcommittee on this subject.

North Platte desires to persuade the Subcommittee that essential air service to cities the size of North Platte, is a primary factor in the survival of our city as a business center with opportunity for growth in size and services.

Alluding to the principal first announced by President Lincoln to the effect that a proper function of government is to do that which the people cannot do for themselves, a corollary to the proposition justifying essential air service, is the historically documented proposition that public transportation in all forms will always require some subsidation from the public treasury. Only the method of raising and distributing the necessary funds is debatable. We attach a copy of our letter to the Department of Transportation for further explanation. This letter was sent in answer to a weak and illogical attempt to explain to us why D.O.T. favors ending essential air service. It should be noted that D.O.T. realizes that 70 cities need essential services but are regarded as not worth the cost!

To further explain the need for essential air service we submit the following:

1. Business Growth: Businessmen want the time savings available through air travel. North Platte has no passenger rail service and one bus a day in each direction. Of course, bus and rail service historically has been heavily subsidized by government. The competitor is the automobile, both as to cost and time. Therefore, air travel must be economical as well as efficient!

a. Most corporate businesses now impose certain air travel restrictions on their officers dictating air travel must be in qualified common carriers.

b. Most businesses, corporate or noncorporate, cannot afford to own and operate aircraft.

c. When a new business looks at North Platte, one of the first questions is regarding transportation. Air service is the first question both as to people travel and as to fast carrier and freight service! No airline--forget it! Emphasizing our available good airport facilities and charter services doesn't overcome the deficit of no airline.

d. Every consultant who, to my knowledge, has offered advice to North Platte regarding survival, as well as growth, has emphasized the public demand for airline service and as an essential ingredient in attracting new business.

e. An essential part of a business development program for North Platte is the concept of making North Platte a better place within which to live and make a living! A better place to live demands airline service.

2. Where to? North Platte needs airline service that binds one end of the state to the other and Nebraska to the rest of the nation.

a. Our seat of government, Lincoln, is 281 auto miles and 4 to 5 hours by auto from North Platte. Lincoln is 396 auto mile and over 8 auto hours from Scottsbluff! And from both towns its another hour to Omaha, our financial and industrial center! Airlines, on the other hand, fly it from North Platte to Omaha and Lincoln in an hour, and from Scottsbluff in 2 hours. No wonder without an airline operating from Scottsbluff through North Platte and Grand Island to Lincoln and Omaha, there is serious talk in Western Nebraska of secession!

b. Ask Senator Exon what his problems are in traveling Nebraska to serve his constituency. How does HE get from Washington, DC to North Platte? And we are going to ask him in his next campaign how often he's planning to come!

3. Regional Concepts: To deny essential air service to North Platte also denies that service to other smaller towns and a large area of farmers and ranchers who travel as much as 150 miles or more by car or private aircraft to North Platte to board the airlines. These people,

in turn, have planned their future and their attractiveness to retention and growth in business and population, on the availability of viable airline service at North Platte! Certainly, U.S.A. cannot survive well without the intercourse of trade, travel, products and services with rural America. Perhaps it is only fair that the providers of cheap food which subsidizes industry and society in the big cities are entitled to essential amenity such as air service.

a. By the same token, we could supply ☛ volumes of data showing that it is North Platte discoursing with other North Plattes and Lincolns and Omahas and with North Platte's service are participating which needs service by air!

b. People in Washington, DC, groan about going to Dulles airport to travel elsewhere. How about your brother in Gordon, Nebraska, who did come to North Platte to travel and now is threatened with having to board at Omaha or Denver?

4. Health and Happiness. Charter service neither economically nor efficiently serve those in North Platte who must travel to medical centers. Only the very rich can afford travel for non-business reasons by charter air service or private aircraft.

5. Airlines Without Essential Air Service. In North Platte, we are told by every airline that has tried service that some form of subsidy is needed to stay.

a. At first blush, the "hub" theory of air transportation appears to be the answer but, we submit will not survive except with even greater government subsidy. The cost of airport facilities, air traffic control, electronic communication, navigational, and air safety devices all of which are heavily subsidized by government, both operationally and in research, development, and construction or implementation, will be astronomical unless government encourages point to point travel outside the hub. Little old North Platte can take some notable pressure off Denver by flying to Omaha, and it doesn't make sense for Senator Exon to fly to Denver to go to Washington, DC. It is utterly ridiculous to fly to Denver to go to Omaha or Lincoln.

b. Travel development at North Platte must occur through proper pricing, scheduling, and marketing, which has not been attempted since Frontier Airlines first served North Platte in the 1950's and 60's (When Frontier was profitable). If, in connection with essential air service, the carrier is required to develop a plan to serve North Platte, rather than Denver, we believe the required subsidy eventually can be reduced.

c. The major airlines are competing with each other for the first time for major markets and until that all sifts out into competitive patterns, essential air service is needed to provide markets less attractive to the "Majors," such as North Platte, an opportunity to develop useful travel habits, and, in turn, a viable market which the Majors must service with reasonable connections.

6. Bottomline, U.S.A. The issue is really whether airline service is needed by, and will be available to, North Platte, not whether that service need be subsidized. It is obvious that air transportation needs subsidy. Too many bureaucrats engage in the muddy thinking that mere bigness is better, that the New Yorks, and Chicagos, and Los Angeles, are where the action is; whereas; most studies show that rural America is where the bottomline is! Take away the natural resources, the human resources, and the social and work ethics, provided this nation by rural America, and U.S.A. is in trouble. Stock brokers, industrialists, factory workers, and services providers, and the like feed on themselves in an urban spiraling circle. But that circle will break without constant injection from rural America. To write off the North Plattes, as D.O.T. and some Congressmen propose, is to write off the very base of the U.S.A. economy. To deny essential air service to North Platte is a step toward such a write off.

Respectfully submitted,

Jess C. Nielsen